



June 05, 2023

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

File Reference No. 2023-ED200

Dear Ms. Salo:

The AICPA's Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on FASB's Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60)—Accounting for and Disclosure of Crypto Assets*.

FinREC supports FASB's efforts and the intent of this project to provide clarity and decision-useful information when accounting for and disclosing certain crypto assets. We agree with the main provisions of the Proposed ASU. We appreciate FASB working to provide timely amendments to address the most pressing issues tailored to the nuances of crypto assets raised by stakeholders. We encourage FASB to continue to actively monitor and address this evolving asset class.

The remainder of this letter provides responses to selected questions within the proposed ASU for your consideration.

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.

As articulated in the Basis for Conclusions, specifically paragraph BC17, it appears that the Board intends to exclude from the scope of the Proposed ASU crypto assets that convey to the holder a right to another crypto asset, commonly referred to as *wrapped tokens*, even if the crypto asset to which the holder has a right is in the scope of the proposed guidance.

Given the pervasive nature and use of certain "wrapped" crypto assets where the holder has the same rights as holding the underlying crypto asset that otherwise would be in the scope of the Proposed ASU, (i.e. the widespread pervasiveness of these assets used in decentralized applications, as well as to facilitate a digital asset's use on different or multiple blockchains and the growing prevalence of layer 2 protocols), FinREC believes the Board may want to consider the potential unintended consequences of a blanket exclusion of these assets from the scope of the Proposed ASU. We note that there are other instances in US GAAP where a right to purchase an asset is accounted for consistent with the accounting for the underlying asset. For example,

forward contracts and purchased options¹ to buy investment securities are accounted for in a similar manner to the investment securities that would be obtained upon exercise (that is, as held-to-maturity, available for sale or trading). We also believe that fair value is the most relevant measurement for these assets, consistent with the underlying asset in the scope of the proposed amendments. Therefore, FinREC believes the Board should amend the criterion in FASB ASC 350-60-15-1(b) as follows (amendments underlined):

b. Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets **unless the other asset would be in the scope of the guidance based on the other criteria in this paragraph.**

However, if the Board believes that all such assets, should be excluded from the scope of the Proposed ASU, even those that only give the holder rights to an in-scope crypto asset, FinREC believes that the Board should clarify and specify this in the proposed Codification amendments as opposed to only including discussion in the Basis for Conclusions. While some constituents may conclude that all wrapped tokens are excluded from the scope of the proposed amendments based on the criteria in FASB ASC 350-60-15-1(b), we believe that other constituents may determine that certain wrapped tokens do not meet the criterion within FASB ASC 350-60-15-1(b) and therefore would be in the scope of the proposed amendments. To avoid diversity in practice, we believe the Board should clarify its intent in the proposed Codification amendments.

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

Notwithstanding our comments on wrapped tokens discussed in Question 1, FinREC believes the population of crypto assets identified by the proposed criteria is appropriate.

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

Yes, FinREC believes the application of the proposed Update applying to all entities is appropriate to maintain a level of consistency across all entities.

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.

Yes, FinREC believes the proposed requirement to subsequently measure certain crypto assets at fair value is appropriate because it is well understood in practice and is a better reflection of the underlying economics associated with holding crypto assets. It would reflect the fact that an entity generally realizes value from a crypto asset through exchange and crypto assets are not used in combination with any other assets to generate value.

¹ FASB ASC 815-10-35-5 this accounting would be applicable only when the forward contract or purchased option is not within the scope of Topic 815.

Question 5: The Board rejected an alternative that would have prohibited an entity from recognizing an unrealized gain for a crypto asset measured at fair value in an inactive market but 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.

No, FinREC does not believe this approach provides more decision-useful information and agrees with the Board's decision.

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.

Yes, FinREC agrees with the Board's decision to treat costs to acquire crypto assets as period expenses rather than to capitalize those costs (unless other industry-specific guidance applies).

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.

Yes, FinREC agrees with the Board's decision to present crypto assets separate from other intangible assets on the balance sheet. However, the Proposed ASU does not provide explicit guidance on whether an entity presents gains and losses in the operating or non-operating income subtotal in its income statement if it otherwise presents a subtotal for operating income in its income statement². In addition, based on the proposed amendments, it is not clear whether an entity could elect to separately present unrealized gains and losses from realized gains and losses on the income statement. Furthermore, given the lack of explicit guidance, FinREC believes that entities that choose to separately present unrealized gains and losses from realized gains and losses may do so inconsistently.

Language in BC39 includes reference to equity securities, which provides disclosure guidance on realized gains and losses and unrealized gains and losses. The derecognition guidance in FASB ASC 350-10-40-1 refers to FASB ASC 610-20 (by reference to the guidance in FASB ASC 360-10), which requires an entity to present in its operating income subtotal realized gains and losses arising from derecognition of assets within its scope. However, FASB ASC 350-30-45-2 only requires an entity to present impairment losses for intangible assets within income (loss) from continuing operations in line-items "as deemed appropriate for each entity." FinREC believes that in the absence of presentation guidance clarifying whether an entity is permitted to

² GAAP does not require separate presentation of operating and non-operating income. In addition, Regulation S-X, Rule 5-03 does not require a subtotal line item for operating income but does provide guidance on generally what items should be presented or not presented if a registrant does provide a subtotal for operating income.

separately present realized gains and losses from unrealized gains and losses, and if permitted, where to present unrealized gains and losses from changes in fair value, entities may look to this impairment presentation guidance. Given the lack of presentation specificity in FASB ASC 350-30-45-2, an entity could potentially present unrealized gains and losses within non-operating income, while presenting realized gains and losses arising from the derecognition of crypto assets in its operating income subtotal (as required by FASB ASC 610-20). In order to avoid this potential counterintuitive inconsistency, FinREC encourages the Board to provide explicit presentation requirements for both realized and unrealized gains and losses in an entity's income statement, including whether the Board believes it is permissible for separate presentation. Specifically, FinREC believes the Board should clarify that net gains and losses (both realized and unrealized) for an entity that presents a subtotal for operating income should be presented in income statement line items as deemed appropriate for each entity, consistent with the language in FASB ASC 350-30-45-2.

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

FinREC supports FASB's proposed amendment to clarify that crypto assets received as noncash considerations in the ordinary course of business and converted nearly immediately into cash would be classified as an operating activity in an entity's statement of cash flows. In addition, FinREC believes the FASB should also require crypto assets that are specifically purchased and then used nearly immediately to pay for expenses in the ordinary course of business to be classified as an operating activity in an entity's statement of cash flows. FinREC does not believe there should be asymmetry between the classification of cash flows that result from this situation and those that result from the nearly immediate sale of crypto assets that were received as noncash consideration in the ordinary course of business.

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. Would the proposed disclosure requirements provide investors with decision-useful information? Please explain why or why not.*

FinREC agrees with the proposed disclosure requirements and believes they provide decision-useful information to users of financial statements.

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.*

FinREC believes that the proposed disclosure requirements are operable in terms of systems, internal controls and other similar considerations.

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?*

FinREC believes that the additional disclosures outlined in BC60 (e.g., the nature and purpose of holding crypto assets, information about pricing, etc.) would be useful to the readers of financial statements.

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.*

FinREC agrees with the proposed amendments as we believe they would provide decision-useful information to users of financial statements.

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 adequate as it relates to crypto assets? Please explain why or why not.*

FinREC believes this guidance is operable and adequate.

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 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.*

FinREC believes the application of adoption through a cumulative-effect adjustment to retained earnings (or other appropriate components of equity or net assets) is the appropriate method for transition guidance.

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.*

FinREC believes the proposed ASU can be implemented without significant additional burden since entities already determine the fair value of crypto assets for purposes of impairment testing and 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.

FinREC believes that the proposed requirements to subsequently measure crypto assets at fair value and the accompanying disclosures benefit investors by providing more decision useful information.

Members of FinREC and AICPA staff would be pleased to discuss any of these comments at your convenience.

Sincerely,

Angela J. Newell, Chair
FinREC

Amy J. Park, Chair
Digital Assets Task Force