FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: March 23, 2023
Comments Due: June 6, 2023

Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60)

Accounting for and Disclosure of Crypto Assets

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 350 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2023-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until June 6, 2023. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment]
- Emailing comments to director@fasb.org, File Reference No. 2023-ED200
- Sending a letter to "Technical Director, File Reference No. 2023-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing the amendments in this proposed Update to improve the accounting for and disclosure of certain crypto assets. Stakeholder feedback, including from respondents to the 2021 FASB Invitation to Comment (ITC), *Agenda Consultation*, indicated that improving the accounting for and disclosure of crypto assets should be a top priority for the Board. Stakeholders stated that the current accounting—except as provided in generally accepted accounting principles (GAAP) for certain specialized industries—for holdings of crypto assets as indefinite-lived intangible assets, which is a cost-less-impairment accounting model, does not provide investors, lenders, creditors, and other allocators of capital (collectively, "investors") with decision-useful information. Specifically, reflecting only the decreases, but not the increases, in the value of crypto assets in the financial statements until they are sold does not provide relevant information that reflects (1) the underlying economics of those assets and (2) an entity's financial position. Certain investors also requested additional disclosures about the types of crypto assets held by entities and changes in those holdings.

In addition to better reflecting the economics of crypto assets, measuring those assets at fair value would potentially reduce cost and complexity associated with applying the current cost-less-impairment accounting model.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities holding crypto assets that meet certain scope criteria.

What Are the Main Provisions?

The amendments in this proposed Update would apply to crypto assets that meet all of the following criteria:

1. Meet the definition of *intangible asset* as defined in the Codification Master Glossary
2. Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets

3. Are created or reside on a distributed ledger based on blockchain technology
4. Are secured through cryptography
5. Are fungible
6. Are not created or issued by the reporting entity or its related parties.

An entity would be required to subsequently measure crypto assets that meet those criteria at fair value with changes recognized in net income each reporting period. An entity would be required to recognize transaction costs to acquire a crypto asset, such as commissions and other related transaction fees, as an expense as incurred, unless applicable industry-specific guidance requires that the entity capitalize those costs.

The amendments in this proposed Update also would require that an entity present (1) crypto assets measured at fair value separately from other intangible assets in the balance sheet and (2) changes in the fair value measurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement (or statement of changes in net assets for not-for-profit organizations).

While the amendments in this proposed Update would not otherwise change the presentation requirements for the statement of cash flows, if crypto assets are received as noncash consideration in the ordinary course of business (for example, in exchange for the transfer of goods and services to a customer) and are converted nearly immediately into cash, an entity would be required to classify those cash receipts as cash flows from operating activities.

For annual and interim reporting periods, the amendments in this proposed Update would require that an entity disclose the following information:

1. The name, cost basis, fair value, and number of units for each significant crypto asset holding and the aggregate fair values and cost bases of the crypto asset holdings that are not individually significant
2. For crypto assets subject to restriction(s), the fair value of those crypto assets, the nature and remaining duration of the restriction(s), and the circumstances that could cause the restriction(s) to lapse.

For annual reporting periods, the amendments in this proposed Update would require that an entity disclose the following information:

1. A rollforward, in the aggregate, of activity in the reporting period for crypto asset holdings, including additions (with a description of the activities that resulted in the additions), dispositions, gains, and losses. If gains and losses are not presented separately, the entity is required to disclose the income statement line item in which those gains and losses are recognized.

2. For any dispositions of crypto assets in the reporting period, the difference between the sale price and the cost basis and a description of the activities that resulted in the dispositions.
3. The method for determining the cost basis of crypto assets.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Under current GAAP, unless otherwise provided in industry-specific GAAP, crypto assets within the scope of the amendments in this proposed Update are accounted for as indefinite-lived intangible assets. Those assets are tested for impairment annually and more frequently if events or circumstances indicate that it is more likely than not that an asset is impaired. If the carrying amount of the asset exceeds its fair value, an entity is required to recognize an impairment loss and reduce the carrying amount of the asset to its fair value. Subsequent increases in the carrying amount of the asset and reversal of an impairment loss are prohibited.

The amendments in this proposed Update would require that an entity measure certain crypto assets at fair value in the statement of financial position each reporting period and recognize changes in fair value in net income. The proposed amendments also would require that an entity provide enhanced disclosures for both annual and interim reporting periods, which would provide investors with relevant information to analyze and assess the exposure and risk of significant individual crypto asset holdings.

In addition, fair value measurement would align the accounting required for all holders of crypto assets with the accounting for entities that are subject to certain industry-specific guidance (such as investment companies) and eliminate the requirement to separately test those assets for impairment, thereby reducing the associated cost and complexity of applying the current guidance.

When Would the Amendments Be Effective and What Are the Transition Requirements?

The amendments in this proposed Update would require 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 reporting period in which an entity adopts the proposed amendments. Upon issuance of a final Update, early adoption would be permitted in any interim or annual period for which an entity's financial statements have not been issued (or made available for issuance) as of the beginning of the annual reporting period.

The Board will determine the effective date after it considers stakeholders' feedback on the proposed amendments.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

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.

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

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.

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.

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?

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.

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.

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.

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.

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.

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?

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.

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.

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.

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.

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.

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.

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

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Addition of Subtopic 350-60

2. Add Subtopic 350-60, with a link to transition paragraph 350-60-65-1, as follows:

[For ease of readability, the new Subtopic is not underlined.]

Intangibles—Goodwill and Other—Crypto Assets

Overview and Background

General

350-60-05-1 This Subtopic provides guidance on the measurement, presentation, and disclosure of crypto assets that are within the scope of this Subtopic.

350-60-05-2 While this Subtopic addresses the accounting for transaction costs to acquire crypto assets, such as commissions and other related transaction fees, it does not address other aspects of the initial measurement and the recognition and derecognition of crypto assets. Reporting entities shall account for initial measurement (other than transaction costs incurred to acquire a crypto asset) and recognition and derecognition of crypto assets in accordance with other generally accepted accounting principles (GAAP).

Scope and Scope Exceptions

General

> Overall Guidance

350-60-15-1 The guidance in this Subtopic applies to holdings of crypto assets that meet all of the following criteria:

a. Meet the definition of **intangible assets** as defined in the Codification Master Glossary
b. Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
c. Are created or reside on a distributed ledger based on blockchain technology
d. Are secured through cryptography
e. Are fungible
f. Are not created or issued by the reporting entity or its **related parties**.

> Entities

350-60-15-2 The guidance in this Subtopic applies to all entities that hold crypto assets.

Glossary

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Fair Value (second definition)

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

Intangible Asset Class

A group of intangible assets that are similar, either by their nature or by their use in the operations of an entity.

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill).

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not **related parties**, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
c. They are able to enter into a transaction for the asset or liability
d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Related Parties

Related parties include:

a. Affiliates of the entity
b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
d. Principal owners of the entity and members of their immediate families
e. Management of the entity and members of their immediate families
f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Initial Measurement

General

350-60-30-1 An entity shall account for transaction costs to acquire a crypto asset, such as commissions and other related transaction fees, as expenses when incurred unless the entity is required or permitted to capitalize those costs in accordance with other Topics.

Subsequent Measurement

General

350-60-35-1 An entity shall measure crypto assets at **fair value** in the statement of financial position. Gains and losses from changes in the fair value of crypto assets shall be included in net income.

Other Presentation Matters

General

> Statement of Financial Position

350-60-45-1 All 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**).

> Income Statement

350-60-45-2 Gains and losses from 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.

> Statement of Cash Flows

350-60-45-3 For guidance related to cash flows from the sale of crypto assets 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, see paragraph 230-10-45-27A.

Disclosure

General

350-60-50-1 At interim and annual reporting periods, an entity shall disclose the following for each significant (as determined by the **fair value**) crypto asset holding:

a. Name of the crypto asset
b. Cost basis
c. Fair value
d. Number of units held.

An entity shall disclose the aggregated cost bases and fair values of the crypto asset holdings that are not individually significant.

350-60-50-2 At annual reporting periods, an entity shall disclose the method used to determine its cost basis for computing gains and losses (for example, first-in, first-out; specific identification; or other method used).

350-60-50-3 At annual reporting periods, an entity shall provide a reconciliation, in the aggregate, of activity from the opening to the closing balances of crypto assets, separately disclosing changes during the period attributable to the following:

a. Additions.
b. Dispositions.
c. Gains included in net income for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net gain from the change in the fair value as included in net income for the period shall be included in the gains line.
d. Losses included in net income for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net loss from the change in the fair value as included in net income for the period shall be included in the losses line.

350-60-50-4 An entity shall disclose the following information about the reconciliation in paragraph 350-60-50-3:

a. A description of the nature of activities that result in additions (for example, purchases, receipts from **customers**, or mining activities) and dispositions (for example, sales or use as payment for services)
b. Total amount of realized gains and losses from dispositions
c. If not presented separately, the line item in which gains and losses are reported in the income statement.

350-60-50-5 For interim and annual reporting periods, an entity shall disclose the following information for crypto assets subject to contractual sale restrictions at the balance sheet date:

a. The fair value of restricted crypto assets
b. The nature and remaining duration of the restriction(s)
c. Circumstances that could cause the restriction(s) to lapse.

350-60-50-6 In providing the required disclosures in paragraph 350-60-50-5, an entity with multiple crypto assets subject to contractual sale restrictions shall consider all of the following:

a. The level of detail necessary to satisfy the required disclosures
b. How much emphasis to place on each of the required disclosures
c. How much aggregation or disaggregation to undertake
d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 2023-XX, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*

350-60-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2023-XX, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets:*

a. The pending content that links to this paragraph shall be effective for all entities for fiscal years beginning after [date to be inserted after exposure], including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period for which an entity's financial statements have not been issued (or made available for issuance) as of the beginning of the fiscal year.
b. An entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the entity first applies the pending content that links to this paragraph.
c. The adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) shall be calculated as the difference between the carrying amount of crypto assets as of the end of the prior annual reporting period and the **fair value** of those crypto assets as of the beginning of the annual reporting period in which the entity first applies the pending content that links to this paragraph.

Amendments to Topic 230

3. Add paragraph 230-10-45-27A and its related heading, with a link to transition paragraph 350-60-65-1, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

. > Crypto Assets Received as Noncash Consideration

230-10-45-27A If crypto assets accounted for in accordance with Subtopic 350-60 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, the cash received shall be classified as operating activities. 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.

Amendments to Subtopic 270-10

4. Amend paragraph 270-10-50-7 by adding item p, with a link to transition paragraph 350-60-65-1, as follows:

Interim Reporting—Overall

Disclosure

> Guidance Related to Disclosure of Other Topics at Interim Dates

270-10-50-7 The following may not represent all references to interim disclosure:

p. For disclosure requirements for certain crypto assets, see paragraphs 350-60-50-1 and 350-60-50-5 through 50-6.

Amendments to Subtopic 350-10

5. Amend paragraphs 350-10-05-3 and 350-10-40-3, with a link to transition paragraph 350-60-65-1, as follows:

Intangibles—Goodwill and Other—Overall

Overview and Background

350-10-05-3 This Topic includes the following Subtopics:

a. Overall.
b. Goodwill—Subtopic 350-20 provides guidance on the measurement of goodwill after acquisition, derecognition of some or all of goodwill allocated to a reporting unit, other presentation matters, and disclosures.
c. General Intangibles Other Than Goodwill—Subtopic 350-30 provides guidance on the initial recognition and measurement of intangible assets other than goodwill that are either:
    1. Acquired individually or with a group of assets in a transaction that is not a business combination or an acquisition by a not-for-profit entity
    2. Internally generated.
d. Internal-Use Software—Subtopic 350-40 provides guidance on the accounting for the cost of computer software that is developed or obtained for internal use and **hosting arrangements** obtained for internal use.
e. Website Development Costs–Subtopic 350-50 provides guidance on whether to capitalize or expense costs incurred to develop a website.
f. Crypto Assets—Subtopic 350-60 provides guidance on the measurement, presentation, and disclosure of certain crypto assets.

Derecognition

> Transfer or Sale of Intangible Assets

350-10-40-3 If an entity transfers a nonfinancial asset in accordance with paragraph 350-10-40-1, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in paragraph 606-10-25-1. Until all of the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do ~~all~~ any of the following, as applicable:

a. Report the nonfinancial asset in its financial statements
b. Recognize amortization expense as a period cost for those assets with a finite life
c. Apply the impairment guidance in Section 350-30-35 ~~350-30-35.~~
d. For crypto assets accounted for in accordance with Subtopic 350-60, recognize gains and losses from changes in **{add glossary link to 2nd definition}fair value{add glossary link to 2nd definition}**.

Amendments to Subtopic 350-30

6. Amend paragraph 350-30-15-4, with a link to transition paragraph 350-60-65-1, as follows:

Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill

Scope and Scope Exceptions

> Transactions

350-30-15-4 The guidance in this Subtopic does not apply to the following:

a. Subparagraph not used.
b. Subparagraph superseded by Accounting Standards Update No. 2010-07.
c. Except for certain disclosure requirements as noted in paragraph 350-30-15-3, capitalized software costs
d. Except for disclosures required by paragraph 944-805-50-1 (however, an insurance entity need not duplicate disclosures that also are required by paragraphs 944-30-50-2A through 50-2B), intangible assets recognized for acquired insurance contracts under the requirements of Subtopic 944-805 ~~944-805.~~
e. Crypto assets accounted for in accordance with Subtopic 350-60, except for recognition and initial measurement of crypto assets accounted for under this Subtopic.

Amendments to Subtopic 958-230

7. Amend paragraph 958-230-55-3, with a link to transition paragraph 350-60-65-1, as follows:

Not-for-Profit Entities—Statement of Cash Flows

Implementation Guidance and Illustrations

> Implementation Guidance

. > Cash Received with a Donor-Imposed Restriction That Limits Its Use to Long-Term Purposes

958-230-55-3 When an NFP reports cash received (or cash receipts from the sale of donated **financial assets** or crypto assets accounted for in accordance with Subtopic 350-60 that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash as discussed in paragraph 230-10-45-21A) with a **donor-imposed restriction** that limits its use to long-term purposes in conformity with paragraph 958-210-45-6, an adjustment to the change in net assets to reconcile to net cash flows from operating activities is necessary when using the indirect method of reporting cash flows in order to present those cash receipts as cash inflows from financing activities as required by paragraph 230-10-45-14(c).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Before adding this project to its agenda, the Board directed the staff to conduct research and monitor developments in the accounting for and reporting of crypto assets. That research focused on whether there was a pervasive need to improve financial reporting, whether feasible solutions existed, and whether a scope for the project could be established. The staff performed pre-agenda research with stakeholders and monitored the development of U.S. accounting practice and the application of both existing authoritative and nonauthoritative guidance and guidance in other jurisdictions. The Board also considered multiple agenda requests that highlighted concern that the current accounting for digital assets as indefinite-lived intangible assets does not reflect the economic nature of those assets because of the historical-cost-less-impairment model that applies to their subsequent measurement.

BC3. Stakeholders' feedback, including respondents to the 2021 FASB Invitation to Comment (ITC), *Agenda Consultation,* indicated that improving the accounting for and disclosure of crypto assets should be a top priority for the Board. Nearly 500 respondents to the 2021 ITC requested that the Board add to its agenda a project related to digital assets. Although some stakeholders made observations about other aspects of the accounting for digital assets and related transactions, stakeholders indicated that the current accounting for crypto assets under a cost-less-impairment accounting model does not provide investors, lenders, creditors, and other allocators of capital (collectively, "investors") with sufficiently decision-useful information. Specifically, those stakeholders noted that reflecting only the decreases, but not the increases, in the value of crypto assets in the financial statements until they are sold does not transparently reflect (a) the underlying economics of those assets and (b) an entity's financial position. Certain investors also requested additional disclosures about the types of crypto assets held by entities and changes in those holdings.

BC4. Some stakeholders requested that the Board add a project on crypto assets to its agenda because measuring crypto assets at historical cost less impairment created a barrier to acceptance of crypto assets. The Board did not give any weight to this feedback as a rationale for adding this project to its agenda or in making decisions. Rather, the Board acknowledged the need to (a) improve the accounting for certain crypto assets in order to provide investors with more decision-useful financial information and (b) reduce complexity related to the application of the current accounting to certain crypto assets.

BC5. In developing the amendments in this proposed Update, the Board and staff also conducted extensive outreach with investors, preparers, practitioners, regulators, industry groups, and others to obtain their views about key considerations in this project. Those stakeholders provided input about how investors would use that information and the expected cost and operability of the Board's decisions. Those outreach activities included more than 150 interactions with stakeholders in groups or one-on-one meetings.

BC6. Many stakeholders indicated that applying the current accounting to crypto assets is unnecessarily complex and costly. Some crypto assets are frequently traded, which is not typical for most intangible assets. For indefinite-lived intangible assets, entities are required to test for impairment annually and more frequently if events or circumstances indicate that it is more likely than not that the asset is impaired. For crypto assets, this process results in reporting entities considering prices across multiple exchanges and seeking additional information throughout the reporting period. In addition, reporting entities often voluntarily provide their investors with fair value or price information as of the end of their reporting period.

Benefits and Costs

BC7. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC8. On the basis of stakeholders' extensive input, the Board concluded that the amendments in this proposed Update would provide investors with more decision-useful information than in applying current GAAP. In particular, the proposed amendments would improve the accounting for certain crypto assets by requiring that all changes in fair value be recognized in net income, which would provide investors with greater transparency about an entity’s holdings of crypto assets. The Board observed that the current accounting, which reflects only decreases but not increases in the value of crypto assets in an entity’s financial statements until those assets are sold, does not reflect the underlying economics of those assets and does not provide decision-useful information about future cash flows that may be generated by those assets.

BC9. In addition, reporting certain crypto assets at fair value would align the accounting required for all holders of crypto assets with the accounting required for entities that follow certain industry-specific guidance (such as investment companies) and would eliminate the requirement for those entities to test the crypto assets for impairment, reducing the cost and complexity of applying the current guidance. The amendments in this proposed Update also would improve the information provided to investors about an entity’s crypto asset holdings by requiring disclosure about the types of and changes in holdings of crypto assets.

BC10. When making its decisions, the Board considered the benefits and costs of specific requirements, as well as the overall benefits and costs of the amendments in this proposed Update. The Board noted that there may be incremental costs of applying some provisions of the proposed amendments and that may offset reductions in cost when compared with the application of existing requirements. The costs of applying the proposed amendments would vary depending on several factors, including whether an entity is currently determining the fair value measurement of crypto assets for voluntary reporting or other purposes and whether the entity’s existing systems can track costs, impairments, and changes in a crypto asset’s value. For example, some stakeholders indicated that measuring crypto assets without quoted prices in active markets at fair value could result in incremental costs and challenges. However, research and outreach conducted with other stakeholders indicated that those costs and challenges could be present in applying the current-cost-less-impairment model.

BC11. The Board also acknowledged that the amendments in this proposed Update could introduce additional costs for preparers to comply with those requirements, particularly related to the disclosure requirements. However, research and outreach conducted with stakeholders indicated that the costs of preparing and providing those disclosures are not expected to be significant. Overall, the Board decided that the expected benefits of the proposed amendments would justify the expected costs.

Basis for Conclusions

Scope

BC12. In developing the proposed scope criteria, the Board sought to leverage existing guidance and provide a solution that would clearly describe and address the population of crypto assets whose accounting, according to most stakeholders, should be improved. The Board considered the definition of and current accounting for certain assets, including intangible assets, securities, and other financial assets, to determine whether, and to what extent, those existing definitions (or aspects of them) should be leveraged. The Board also considered key characteristics of crypto assets that differentiate them from other assets and the fungibility and marketability of crypto assets. The Board acknowledged that the proposed criteria would result in a relatively narrow—but in the Board's view appropriately defined—scope, given the wide range of digital and other assets.

BC13. The Board decided that crypto assets would need to meet all of the following criteria to be subject to the amendments in this proposed Update:

a. Meet the definition of *intangible assets* as defined in the Codification Master Glossary
b. Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
c. Are created or reside on a distributed ledger based on blockchain technology
d. Are secured through cryptography
e. Are fungible
f. Are not created or issued by the reporting entity or its related parties.

BC14. The Board determined that crypto assets created or issued by the reporting entity or its related parties should be excluded from the scope of the amendments in this Update. The Board observed that stakeholders did not ask that the Board address the issuer's accounting. In addition, issuers did not support measuring crypto assets created or issued by a reporting entity or its related parties at fair value. The Board clarified during its discussions that a miner is not the creator of the newly created crypto assets it receives as consideration for performing services if that is the only involvement that an entity has in the "creation" of the crypto asset.

BC15. The Board observed that the definition of *intangible asset* generally would include the types of crypto assets that stakeholders stated needed improvements in accounting. That definition specifically excludes financial assets. Therefore, fiat currency and many securities would be excluded and accounted for under other GAAP. The Board also observed that there are multiple definitions of *security* and that certain assets that are considered securities for regulatory purposes may not be considered securities as defined in the Master Glossary.

BC16. The Board included a scope criterion that would exclude crypto assets that provide the holder with enforceable rights to, or claims on, underlying goods, services, or other assets. Without that criterion, some Board members observed that the accounting for certain arrangements—such as contracts with customers, guarantees, and insurance contracts—inadvertently could be included within the scope of the amendments in this proposed Update. Those arrangements, which may be in digital form, should continue to be subject to other GAAP.

BC17. The Board observed that crypto assets (for example, certain crypto assets that are commonly referred to as *wrapped tokens*) may provide the asset holder with rights to other assets, including other crypto assets and, therefore, would be outside the scope of the amendments in this proposed Update. The Board expressed concern that broadening the scope to include crypto assets that provide rights to other crypto assets was not identified as pervasive and expanding the scope to include crypto assets that derive value principally by providing rights to other assets could have consequences that have not been fully evaluated. Accordingly, the Board decided not to slow progress on this project but to continue to monitor market developments to determine whether additional standard setting is warranted in the future.

BC18. The scope criteria also include certain characteristics of crypto assets that differentiate them from other assets, that is, they are created, or reside on, a distributed ledger based on blockchain technology and are secured through cryptography. The Board decided that including those characteristics within the scope criteria would prevent other digital intangible assets, such as software and media, from being included within the scope of the amendments in this proposed Update. In addition, the Board sought to describe the technological form of those assets within the scope criteria while also providing flexibility because of the continued evolution in the technology underlying crypto assets. The Board considered but ultimately decided not to specify that the distributed ledger be public because determining the meaning of *public* in this context would require judgment and may be complex.

BC19. The Board decided to include fungibility as a criterion because obtaining market prices for items that are not fungible could be costly and complex. The fungibility criterion would exclude nonfungible tokens (NFTs) from the amendments in this proposed Update. Investors indicated that they do not observe reporting entities holding material amounts of NFTs at this time and that if they were to observe those holdings, the reported value may not affect their analyses or capital allocation decisions because of the nature of those assets and the uncertainty surrounding their value. Excluding NFTs from the scope of the proposed amendments also is consistent with the feedback received from many respondents to the ITC that favored a narrow-scope project.

BC20. In developing the scope criteria for the amendments in this proposed Update, the Board acknowledged that other characteristics, such as “medium of exchange” and “store of value,” are used by others when describing or defining crypto assets. The Board did not include those characteristics because (a) other assets, such as fiat currency, may share those characteristics and (b) evaluating whether those characteristics exist for financial reporting purposes may be subjective. Therefore, including those characteristics within the scope criteria could have increased the cost and complexity of an entity's assessment of whether an asset is within the scope of the proposed amendments.

BC21. The Board also considered whether to exclude crypto assets without an active market from the amendments in this proposed Update. The Board ultimately dismissed that alternative, however, because (a) that criterion could result in complexity because, for example, a crypto asset could move within and outside the scope based on changes in the market activity for that asset, (b) if those assets were excluded from the proposed amendments, the proposed presentation and disclosure requirements would not apply to those assets, (c) the existence of an active market is considered part of the fair value measurement of crypto assets in accordance with Topic 820, Fair Value Measurement, and (d) the impairment testing guidance would still require that an entity determine fair value for the purpose of recognizing any potential impairment loss.

Entities

BC22. The accounting for intangible assets applies broadly to public business entities, private companies, not-for-profit entities, and employee benefit plans. Stakeholders stated that applying current guidance to certain crypto assets is costly and complex and is not consistent with the underlying economics of those assets. Therefore, Board members agreed that improving the accounting, presentation, and disclosures for certain crypto assets would benefit all entities.

BC23. Although specific-industry guidance, such as guidance for investment companies, currently permits or requires accounting for crypto assets at fair value, the Board decided that it would be beneficial to include those entities within the scope of the amendments in this proposed Update primarily because investors would benefit from enhanced disclosures. Subtopic 946-205, Financial Services—Investment Companies—Presentation of Financial Statements, requires presentation of a statement of net assets, which includes a schedule detailing an entity's investments on a more disaggregated basis, and provides guidance on the presentation of changes in the fair value of investments in an investment company's statement of operations. The Board decided that investment companies should continue to present amounts related to crypto assets in their financial statements in accordance with that industry-specific guidance.

BC24. The Board also considered the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies,* and consulted the Private Company Council as it determined whether exceptions or practical expedients related to measurement, presentation, and disclosure were needed. The Board has not received feedback from private company investors that indicates they have different informational needs related to crypto assets. Furthermore, on the basis of stakeholders' feedback received, the Board decided that private company investors generally would benefit from having more relevant information about crypto assets. The amendments in this proposed Update also are expected to reduce the cost and complexity for some entities. Therefore, the Board decided not to include any exceptions or practical expedients for private companies.

Measurement

BC25. The amendments in this proposed Update require that an entity subsequently measure crypto assets at fair value at each reporting period. The Board decided to require fair value measurement because it would provide investors with more decision-useful information about the value at which crypto assets can be sold and about changes in that value. In reaching that conclusion, the Board observed that the predominant way that an entity realizes value from a crypto asset that meets the scope criteria is through exchange and crypto assets are not used in combination with any other assets to generate value. The fair value measurement guidance in Topic 820 also is well understood in practice and familiar to many investors because it is used to measure other assets. Almost all stakeholders, including those who responded to the ITC, supported requiring or allowing entities to measure crypto assets at fair value for similar reasons.

BC26. The Board considered and dismissed two other measurement alternatives—historical cost with modified impairment and net realizable value. Some stakeholders suggested that the current impairment evaluation should be modified to require that an entity test crypto assets for impairment only as of the end of the reporting period. Although that alternative would reduce the costs and complexities of assessing impairment, the Board decided that it would provide less relevant information about downward price movement and would prohibit the recognition of increases in price movement. The Board also considered requiring that an entity measure crypto assets at net realizable value, which is an entity-specific current value. The Board decided not to pursue this alternative because it would have (a) required complex and potentially costly assessments of reasonably predictable costs to sell those assets, (b) introduced a new measurement basis for crypto assets that is not widely used for other assets, and (c) resulted in differences in the measurement of crypto assets between different types of entities.

BC27. The Board did not support providing entities with an option, as opposed to a requirement, to subsequently measure crypto assets at fair value because it would have (a) diminished comparability between similar entities and similar assets and (b) resulted in additional effort for investors to understand an entity's measurement policies and evaluate the entity's financial results. Additionally, the Board acknowledged that reporting entities currently are required to consider fair value measurement when evaluating crypto assets for impairment; therefore, a fair value option likely would not reduce costs or complexity for preparers.

BC28. The Board also considered whether the guidance in Topic 820 provides a sufficient basis for entities to measure the fair value of crypto assets. Specifically, the Board observed that Topic 820 provides guidance on identifying the principal (or most advantageous) market, how determining fair value may be affected by transactions with related parties, how to measure fair value when the volume or level of activity for an asset has decreased significantly, identifying transactions that are not orderly, and using quoted prices provided by third parties. While judgment may be required in evaluating those aspects of Topic 820 when measuring the fair value of crypto assets, an evaluation of those aspects involving judgment also is required when measuring other assets in accordance with Topic 820. Therefore, the Board decided that the existing guidance in Topic 820 is sufficient. Additionally, the Board acknowledged that reporting entities currently apply the fair value measurement principles in Topic 820 when determining impairments under the cost-less-impairment accounting model and when following industry-specific guidance that requires or allows fair value measurement for crypto assets. Paragraphs BC31–BC37 describe the Board's considerations for measuring crypto assets without quoted prices in active markets.

Certain Transaction Costs to Acquire Crypto Assets

BC29. The Board decided that transaction costs to acquire crypto assets, such as commissions and other related transaction fees, should 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). A majority of the Board concluded that expensing transaction costs would (a) provide investors with greater visibility into gains and losses that arise because of price changes in an entity's crypto asset holdings and (b) eliminate the potential for diversity in practice. The Board decided that bid-ask spreads would not be considered a transaction cost to acquire a crypto asset for the purpose of this guidance and, therefore, that type of transaction cost would not need to be expensed as incurred as a result of the amendments in this proposed Update.

BC30. Some Board members preferred capitalizing certain transaction costs because including those costs in the gains and losses from holding a crypto asset would better reflect the performance of that holding and would eliminate a difference between how an investment company and other reporting entities depict similar transactions.

Alternatives Considered for Measuring Crypto Assets without Quoted Prices in Active Markets

BC31. While almost all ITC respondents and other stakeholders supported fair value measurement, some stakeholders raised concerns about whether fair value is an appropriate measurement basis for crypto assets that do not have a quoted price in an active market. One concern noted was that the techniques and inputs used to value crypto assets using a market approach may be unreliable, which could result in financial information that lacks relevance. Additionally, because of the largely unregulated nature of crypto asset markets, certain transactions that are not orderly (for example, wash trades that are intended to manipulate prices) may appear as orderly transactions and could distort an entity's fair value measurement. Therefore, those stakeholders suggested that the Board preclude fair value measurement of crypto assets without existing active markets.

BC32. Other stakeholders expressed different views on applying the valuation techniques described in Topic 820. Some observed that the economic benefits provided to the holders of crypto assets are realized through the exchange of those assets. Therefore, those stakeholders indicated that it would be rare to apply any valuation technique other than a market approach based on observed transactions or market quotes when measuring a crypto asset's fair value. Certain stakeholders also suggested that when there is no quoted market price in an active market, the appropriate measure would be zero. Other stakeholders disagreed with that view but acknowledged that the fair value measurement of a crypto asset with no quoted market price in an active market may be a minimal or immaterial amount.

BC33. In acknowledging those views, the Board considered three measurement alternatives for crypto assets without quoted prices in active markets:

a. Require that the cost-less-impairment accounting model be applied until the market for the crypto asset becomes active
b. Provide reporting entities with a policy election to remeasure those assets at fair value only upon impairment and when observable orderly transactions occur
c. Require that those assets be measured at zero until the market for the crypto asset becomes active.

BC34. The Board rejected those measurement alternatives for the following reasons. The first reason is the broadly applicable requirements for measuring the fair value of assets and liabilities without quoted prices in active markets, which Topic 820 specifically addresses as discussed in paragraph BC28.

BC35. Second, each of the measurement alternatives would require professional judgment to determine whether an active market exists and how that determination affects fair value measurement, which is the same judgment required in the broad application of Topic 820.

BC36. Third, entities that use the cost-less-impairment accounting model are currently required to determine the fair value of all crypto assets, including those without quoted prices in active markets, to evaluate those assets for impairment. Entities that follow certain industry-specific guidance (for example, investment companies) measure crypto assets at fair value, regardless of whether there are quoted prices in an active market for those assets (which could be zero). Furthermore, unless there is a requirement to measure those assets at zero, an entity would still be required to determine the fair value for impairment purposes.

BC37. Last, given that the scope of the amendments in this proposed Update is expected to be narrow (as discussed in paragraph BC12), there does not appear to be a pervasive need for alternatives to fair value measurement at this time.

Presentation

BC38. Reporting entities currently are required, at a minimum, to present all intangible assets as a separate line item in the balance sheet. The amendments in this proposed Update would require that an entity present crypto assets measured at fair value separately from intangible assets measured at historical cost less amortization and impairment. The Board decided that crypto assets should be presented separately from other intangible assets because they are measured and generate benefits differently from other intangible assets. Additionally, separately presenting crypto assets would better respond to investors' requests that information about crypto assets should be transparently displayed in the financial statements.

BC39. Under the amendments in this proposed Update, an entity would be required to include all changes in the fair value of crypto assets in net income. The Board decided that reflecting the periodic changes in net income, combined with additional disclosures about an entity's crypto assets at each balance sheet date, would provide investors with relevant information about how management is generating value from its crypto asset positions over time. Outreach also indicated that most stakeholders favor aligning the accounting for crypto assets with the accounting for investments in equity securities because both are investments without defined payouts and maturity dates. Requiring periodic changes of crypto assets in net income would be consistent with the presentation requirements for investments in equity securities.

BC40. A few stakeholders supported including changes in the fair value of crypto assets in other comprehensive income until those gains and losses are realized through the sale or disposal of the crypto asset. Those stakeholders were concerned primarily about the volatility in earnings that the changes in fair value may cause.

BC41. The Board decided not to present changes in the fair value of crypto assets in other comprehensive income. On the basis of outreach, most investors said that they would prefer to see that volatility reflected in net income because it would provide transparent, decision-useful information about the performance of crypto assets and an entity's ability to manage them. Furthermore, neutrally reflecting changes (that is, both decreases and increases in fair value) in net income would improve financial reporting and address concerns that the current accounting model does not reflect the underlying economics of crypto assets.

BC42. The Board also decided to present aggregate gains and losses on crypto assets separately from amortization expense and impairment losses of other intangible assets. Similar to its decisions on the balance sheet presentation, the

Board decided that changes in the fair value of crypto assets should be presented separately from changes in other intangible assets because crypto assets are measured and generate benefits differently from other intangible assets.

BC43. The Board also considered whether current guidance is sufficient for presenting cash and noncash activities related to crypto assets in the statement of cash flows. That guidance does not prescribe a particular classification for the cash paid to acquire, or cash received to sell, intangible assets. Accordingly, management would continue to apply judgment in classifying cash flows associated with crypto assets on the basis of an entity's facts and circumstances, focusing on the nature of the cash flows and the purpose of the activities that give rise to them.

BC44. The Board observed, however, that entities may receive crypto assets in the ordinary course of business as noncash consideration and often may liquidate those assets nearly immediately. Although entities sometimes may receive other intangible assets as noncash consideration in a transaction, they are rarely liquidated in that manner because those assets have a different nature and purpose. Therefore, the Board decided to specify that in cases in which crypto assets are received in the ordinary course of business (for example, in exchange for transferring goods and services to a customer) and are converted nearly immediately into cash, a receiving entity would classify the cash inflows as an operating cash inflow. The Board discussed the phrase *nearly immediately* as meaning a short period of time that is expected to be within hours or a few days, rather than weeks.

BC45. The Board acknowledged that entities may be able to determine the appropriate classification of noncash consideration in a transaction by applying Topic 230, Statement of Cash Flows, without additional guidance. However, the Board decided that specific presentation requirements are important for crypto asset transactions with near immediate liquidation because a different classification in the specified circumstances likely would be misleading to investors. That is because classifying these cash receipts as investing activities when an entity receives crypto as a form of consideration for a routine operating activity that is immediately (or nearly immediately) converted to cash would not reflect the economics of the activity and could diminish an investor's ability to assess the uncertainty of an entity's prospective cash flows. The Board expects that entities will be able to apply that guidance consistently without creating additional cost or complexity.

Disclosure

BC46. A key objective for this project, based on stakeholders' feedback on the ITC and outreach, is to improve the information about crypto assets provided to investors in the financial statements.

BC47. Chapter 8, *Notes to Financial Statements*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, suggests possible information for the Board to consider when deciding on the disclosure requirements for a Topic in the Codification. The amendments in this proposed Update result from the Board's consideration of the guidance in Chapter 8 of Concepts Statement 8 as well as feedback received from outreach with stakeholders. The proposed enhancement to disclosures is incremental to any disclosures required by other Topics to which crypto assets or the entities that hold them may be subject.

BC48. The Board affirmed that the fair value disclosures required by Topic 820 would be required for crypto assets. They believe that the disclosure requirements in that Topic would provide decision-useful information about crypto assets measured at fair value. In affirming that the Topic 820 fair value disclosures should be provided for crypto assets, the Board observed that private companies are exempt from certain of those disclosure requirements.

BC49. Additionally, for all entities, the Board considered disclosures beyond those required by Topic 820 related to the unique nature of crypto assets, the variation in the regulation of domestic and international markets for crypto assets, and the relative maturity of the markets in which crypto assets are traded. The Board considered those additional disclosures for all holders of crypto assets to improve the information provided to investors and increase comparability.

Significant Holdings Disclosure

BC50. Investors requested more transparency about an entity's individual holdings of crypto assets to understand the present risks at the reporting date. The Board decided to require at interim and annual periods that entities disclose for each significant holding of crypto assets the name, cost basis, fair value, and number of units held, as well as the aggregate fair value and cost basis of the crypto asset holdings that are not individually significant. Determining which crypto asset holdings are significant should be based on the fair value of each holding.

BC51. The Board supported requiring this disclosure because it would allow investors to analyze and assess the exposure and risk of significant individual crypto asset holdings. The Board decided not to prescribe what cost method reporting entities must use when determining and disclosing the cost basis because entities have existing approaches for financial reporting purposes. The Board decided to require disclosure of the cost basis used.

BC52. Although some stakeholders suggested that the Board require disclosure of an entity's top 5 or 10 holdings of crypto assets by fair value, the Board decided that a bright line may not be suitable and may be insufficient in reflecting an entity's risks associated with various crypto assets. Therefore, the Board decided to allow entities to use appropriate judgment to determine their significant holdings. Using the term *significant holdings* is consistent with other GAAP requirements and is not further defined in the amendments in this proposed Update.

Restrictions of Crypto Assets Disclosure

BC53. The Board decided to require that an entity disclose when its crypto assets are subject to contractual sale restrictions, the fair value of the restricted crypto assets, the nature and remaining duration of the restriction, and the circumstances that would cause the restriction to lapse. In outreach, investors supported requiring this disclosure because it would provide additional information about the liquidity risk associated with an entity's holding of restricted crypto assets. Also, those disclosures are consistent with those that the Board required for equity securities subject to contractual sale restrictions in Accounting Standards Update No. 2022-03*, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*.

Reconciliation of Crypto Assets Held during the Period Disclosure

BC54. Investors who participated in outreach on this project also supported disclosing the reconciliation of the beginning and ending balances of crypto asset holdings because it would provide information about an entity's crypto activities during the period. The Board decided to require that entities disclose an aggregate reconciliation of crypto assets, but to limit it to annual periods. That reconciliation would include separate disclosure of additions, disposals, gains recognized during the period, and losses recognized during the period.

BC55. The Board decided that gains and losses should be separately disclosed in the reconciliation because that information would allow an investor to identify whether there are large gains offsetting large losses during the period. The amendments in this proposed Update also specify that gains and losses should be determined on a crypto-asset-by-crypto-asset basis. The Board specified that method in the proposed amendments to increase the consistency and comparability of that information between reporting entities. The Board observed that the disclosure of gains and losses may indicate unique circumstances related to a particular crypto asset or that the entity has changed its strategy.

BC56. An entity would be required to provide a description of the additions (for example, purchases, receipts from customers, or mining activities) and dispositions (for example, sales or payment for services) as part of the reconciliation or in its annual disclosures. The Board noted that information about the nature of additions and dispositions would help investors more easily identify and analyze noncash transactions involving crypto assets.

BC57. The amendments in this proposed Update also would require that an entity disclose the gross cumulative realized gains and losses resulting from crypto asset disposals in the period. The gains and losses would represent the difference between the disposal price and the cost basis of those assets. Some investors noted that a disclosure of this nature would provide them with useful information about an entity's effectiveness over the management of its crypto assets.

BC58. Some Board members questioned the incremental benefits of a reconciliation of the beginning and ending balance in light of the proposed disclosures about significant crypto asset holdings and restricted crypto assets. The Board decided to require that reconciliation and to seek additional input from investors about which aspects of the reconciliation are most critical and how that information would be used.

BC59. The Board acknowledged that the Private Company Decision-Making Framework indicates that generally private companies should not be required to disclose a reconciliation of the beginning and ending balances of balance sheet line items. However, certain Private Company Council members supported this disclosure because it would allow an investor to understand an entity's crypto asset activities during the reporting period. Stakeholders told the Board that a disclosure of this nature may not be costly because crypto asset recordkeepers currently are tracking the information that would be necessary to provide the reconciliation.

Disclosures Considered but Rejected

BC60. The Board considered feedback received from stakeholder outreach for other suggested disclosures about crypto assets that could be useful, including additional information about gains and losses, the nature and purpose of holding crypto assets, information about pricing, and information about the cryptographic private key. The Board decided not to require those additional disclosures. In some cases, the Board decided that similar information could be obtained by the proposed disclosure of the reconciliation, by the disclosure about significant holdings, or from other existing disclosure requirements. For other disclosures, the Board decided that the information to be disclosed was too detailed and not currently required for similar assets.

Effective Date and Transition

BC61. The Board did not propose an effective date for the amendments in this proposed Update. The Board will consider the comments received on the proposed amendments before determining an effective date.

BC62. The amendments in this proposed Update would 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.

BC63. The Board decided against requiring that reporting entities apply the amendments in this proposed Update through a full retrospective approach because it determined that the expected costs of full retrospective application may not justify the potential benefits for investors. Applying the full retrospective application would require that entities determine the fair value of crypto assets for prior periods, which could be complex and costly and provide limited benefits to investors, given continued changes in the fair value of those crypto assets.

BC64. The Board also considered, but rejected, prospective application of the amendments in this proposed Update, which would have resulted in recognizing the effects of initially applying the proposed amendments through net income. In doing so, the decision usefulness of information provided to investors could have been diminished because those effects would have been presented with any gains or losses that may arise from subsequently measuring crypto assets in the period of adoption.

BC65. Consistent with feedback from investors and preparers, the Board decided that early adoption would be permitted, including adoption in an interim period as of the beginning of the annual period that includes that interim period.

Comparison to International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards)

BC66. In June 2019, the IFRS Interpretations Committee (IFRIC) clarified that cryptocurrencies (a subset of crypto assets that have certain characteristics that differ from the scope of the amendments in this proposed Update) held for sale in the ordinary course of business should be measured at the lower of cost and net realizable value in accordance with IAS 2, *Inventories,* unless the asset holder is a commodity broker-trader, in which case the cryptocurrencies are measured at fair value less costs to sell. All other holdings of cryptocurrencies should be subsequently accounted for in accordance with IAS 38, *Intangible Assets.*

BC67. IAS 38 requires impairment testing of intangible assets, which is similar to current GAAP. However, unlike current GAAP, impairment losses may be reversed under certain circumstances. In addition, entities may elect to carry an intangible asset with an active market at a revalued amount, which is its fair value at the date of revaluation less any accumulated impairment losses that are recognized after the revaluation date. IFRS Accounting Standards require that any changes in fair value above historical cost be recognized in other comprehensive income, while any changes in fair value below historical cost should be recognized in profit and loss.

BC68. There are similarities between the amendments in this proposed Update and the IFRS Accounting Standards revaluation model. One important similarity is that for crypto assets traded in active markets, if entities elect to apply the revaluation model in IAS 38, both would require recognition of crypto assets at fair value on the balance sheet. There also are four key differences between the proposed amendments and IFRS Accounting Standards. Those differences are that:

a. The proposed amendments would apply to a subset of crypto assets that differ from cryptocurrencies as described by the IFRIC.
b. The proposed amendments would require fair value measurement for crypto assets (a subset of intangible assets), whereas the revaluation model under IFRS Accounting Standards is an election for intangible assets.
c. The proposed amendments would require fair value measurement for crypto assets, whereas the revaluation model under IFRS Accounting Standards requires reference to an active market for measuring at fair value.
d. The proposed amendments would require the recognition of all changes in the fair value of crypto assets in net income, whereas IFRS Accounting Standards require recognition of any gains above original cost in other comprehensive income without recycling to net income.

BC69. Additionally, the amendments in this proposed Update would require disclosures that are specific to crypto assets that are not included in IFRS Accounting Standards.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.