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ASU 2023-08
FASB's Final Standard on Crypto Assets

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Executive Summary

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-08 on December 13, 2023. The ASU aims to address concerns raised by stakeholders regarding the current accounting for holdings of crypto assets. Currently, in most cases, holdings of crypto assets are accounted as indefinite-lived intangible assets which is a cost-less-impairment accounting model. Stakeholders stated that this model does not provide investors with decision-useful information. Since in this model, only the decrease in asset value is accounted for (not the increase) until they are sold, it does not reflect the underlying economics of the assets and the entity's financial position.

The new guidance introduced in the ASU requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recorded in net income in each reporting period. In addition, entities are required to provide additional disclosures about the holdings of certain crypto assets.

Current GAAP

- Accounted for as indefinite-lived intangible assets
- Only decrease in asset value is accounted for (not the increase)
- All disclosures related to intangible assets required

New GAAP

- Subsequently measure certain crypto assets at fair value
- Positive and negative changes in fair value recorded in net income
- Additional disclosures required.

Entities will be required to adopt the ASU for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted.

Scope of the Standard

ASU 2023-08 applies to all entities that hold certain crypto assets, including public business entities, private companies, not-for-profit entities, and employee benefit plans. The standard defines crypto assets as assets that meet following criteria:

- Meet the definition of an intangible asset as given in ASC 350.
- Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets.
- Are created or reside on a distributed ledger based on blockchain or similar technology.
- Are secured through cryptography.
- Are fungible.
- Are not created or issued by the reporting entity or its related parties.

It is important to note that the standard does not apply to financial assets such as securities, arrangements like contracts with customers or guarantees, crypto assets that provide rights to other crypto assets (wrapped tokens), digital intangible assets, or non-fungible tokens (NFTs). The financial statement preparers having such digital assets will need to do a more extensive analysis of the rights associated with these tokens to conclude the accounting treatment.

Measurement of Crypto Assets

Under ASU 2023-08, entities are required to subsequently measure crypto assets that meet the scope criteria at fair value. Changes in the fair value of these assets should be recorded in net income for each reporting period.

Entities should use the existing fair value measurement guidance in ASC 820 to determine the fair value of crypto assets. This includes determining the principal market, assessing the levels of inputs in the fair value hierarchy, and measuring fair value in transactions affected by related parties. Transaction costs incurred to acquire crypto assets should be recognized and presented in accordance with other applicable US GAAP guidance.

Presentation and Disclosure Requirements

ASU 2023-08 introduces specific presentation and disclosure requirements for entities that hold crypto assets. Entities are required to present crypto assets measured at fair value separately from other intangible assets on the balance sheet. In the income statement, changes from the remeasurement of crypto assets to be presented separately from changes in the carrying amount of other intangible assets.

The amendments require that cash receipts, arising from crypto assets that are received as noncash consideration in the ordinary course of business and are converted nearly immediately into cash, should be presented as operating cash flows.

Entities are also required to provide the following interim and annual disclosures:

01 For each significant crypto asset holding (based on fair value):

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

02 The aggregate cost basis and fair value of holdings that are not individually significant should be disclosed.

03 For crypto assets that are subject to contractual sale restrictions, the fair value of those crypto assets, the nature and remaining duration of the restriction, and the circumstances that could cause the restriction to lapse.

Using the term significant holdings is consistent with other GAAP requirements and is not further defined in the amendments in the ASU. 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.

The guidance requires an entity with multiple crypto assets subject to contractual sale restrictions to consider all 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.

Additionally, the ASU requires the following annual disclosures:

a) A roll forward of activity in the reporting period for crypto asset holdings, including additions (with a description of the activities resulting in the additions), dispositions, gains, and losses.

b) For any dispositions of crypto assets in the reporting period, the difference between the disposal price and the cost basis and a description of the activities that resulted in the dispositions.

c) If gains and losses are not presented separately, the income statement line item in which those gains and losses are recognized.

d) The method for determining the cost basis of crypto assets (for example, first-in, first-out; specific identification; average cost; or other method used)

Effective Date and Transition

ASU 2023-08 is effective for fiscal years beginning after December 15, 2024, 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. Entities that choose to early adopt the standard in an interim period should apply it as of the beginning of the fiscal year that includes that interim period.

Upon adoption, entities should make 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 fiscal year of adoption. This adjustment is calculated as the difference between the carrying amount of crypto assets at the end of the prior annual period and their fair value at the beginning of the annual period in which the entity adopts the standard.

IFRS vs US GAAP

Currently, there is no specific standard within the International Financial Reporting Standards (IFRS) framework that provides detailed guidance or requirements for the treatment of cryptocurrencies. In March 2019, an IFRIC agenda decision was published which confirmed that cryptocurrencies (a subset of crypto assets that have certain characteristics that differ from the scope of the amendments in this update) may meet the definition of either an intangible asset or inventory, depending on the circumstances. Under IFRS, where an entity holds cryptocurrencies for sale in the ordinary course of business, the cryptocurrencies are considered to be inventory and should be accounted for in terms of IAS 2 Inventories. Inventories are typically measured at the lower of cost and net realizable value.

One similarity between the ASU and IFRS Standards is that for crypto assets traded in active markets, if entities elect to apply the revaluation model in IAS 38, both require recognition of crypto assets at fair value on the balance sheet

In IFRS, as an exception, broker-traders are permitted to measure their inventories at fair value less costs to sell. Broker-traders are those who buy or sell commodities for others or on their own account. A broker-trader of cryptocurrencies generally acquire the cryptocurrencies with the intention of selling them in the near future and generating a profit from fluctuations in prices or broker-traders' margin. No such provisions exist in the ASU.

The cryptocurrencies that are not held for sale in the ordinary course of business (and not fall under the above exception) would be classified as intangible assets under IAS 38 Intangible Assets. 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.

Key differences between the amendments and IFRS Accounting standards:

01 The amendments apply to a subset of crypto assets that differ from cryptocurrencies as described by the IFRIC.

02 The amendments 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.

03 The amendment in the ASU require disclosures that are specific to crypto assets that are not included in the IFRS accounting standards.

04 For the measurement of crypto assets (a subset of intangible assets), the amendments mandate the use of fair value measurement. In contrast, the IFRS Accounting Standards offer the revaluation model as an optional method for valuing intangible assets.

05 The amendments require the recognition of all remeasurements 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.

The Pie perspective

The ASU is poised to significantly alter the landscape of financial reporting for companies holding crypto assets. Key anticipated benefits of the ASU include enhanced transparency, allowing for a more accurate representation of a company's financial health through fair value measurement of crypto assets. This change not only aids investors and stakeholders in gaining a clearer understanding of a company's crypto holdings and performance but also offers an opportunity for better communication about these aspects. Companies opting for early adoption in 2023 or 2024 stand to benefit from recognizing gains in their financial statements if their crypto assets have appreciated in value, highlighting an advantage of this new standard.

However, the implementation of the ASU is not without its challenges. Determining the fair value of crypto assets poses a significant hurdle due to the diverse market dynamics across various exchanges and the potential for certain assets to be thinly traded or not traded in active markets at all. Additionally, the ASU's narrow scope means that while it will be clear for many assets whether they fall under this standard, there remains ambiguity for various types of tokens and digital assets, making scope determination a complex issue.

The introduction of new disclosure requirements, though beneficial for transparency, will demand companies to adopt new systems and processes for collecting and reporting detailed information on their crypto transactions, which could prove to be a considerable challenge. Moreover, companies considering early adoption must meticulously evaluate their capability to apply the fair value model from the start of the fiscal year of adoption, as reconstructing necessary data retrospectively could be a daunting task.

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