June 6, 2023

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

Re: File Reference No. 2023-ED200

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets (Exposure Draft or proposed Update).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than $12 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We support the Board's responsiveness to stakeholder requests to improve the accounting for and disclosure of crypto assets. As crypto assets continue to evolve and become more prevalent, we appreciate the Board's attentiveness to provide explicit guidance in this area, which we also mentioned as a priority topic in CCR's comment letter in response to the FASB's 2021 Agenda Consultation.[1] In our letter, we offer broad support for the amendments in this proposed Update. We generally agree with the scoping criteria and provide a suggestion for eventually expanding the scope to include other relevant assets. We are strongly supportive of measuring crypto assets at fair value and share a recommendation related to the accounting for transaction costs. CCR also generally supports the proposed presentation and disclosure requirements and provides specific feedback for consideration related to the reconciliation requirements.

[1] See CCR's Response to the FASB Agenda Consultation.

Lastly, we indicate support for the cumulative-effect transition approach and elaborate on the implementation time entities will need to adopt the proposed amendments.

Scope and Measurement

Overall, we find the proposed scope criteria to be understandable and operable as it seeks to eliminate transactions that may deviate from mainstream digital assets and scopes out non-fungible tokens (NFTs) and stablecoins. We agree with the Board's approach to prioritize the issuance of proposed guidance covering pervasive crypto assets (e.g., Bitcoin, Ethereum), while deprioritizing less pervasive and material crypto assets (e.g., NFTs) especially given the wide range of digital and other assets. We also suggest the Board consider expanding the scope to include wrapped tokens, specifically for instances where the asset identified in the token relates to Bitcoin or Ethereum, as part of a follow-up project, shortly after completing this project. We agree with the Board's decision not to slow progress on this current project and suggest they continue to monitor market developments to determine whether additional updates to the standard are warranted in the near future.[2]

We support the requirement that an entity subsequently measure certain crypto assets at fair value in accordance with Topic 820, Fair Value Measurement. Reflecting both the increases and decreases in the fair value of crypto assets within scope better reflects the economic reality of holding these assets as the value is predominantly realized through exchange and sale, unlike other intangible assets on the balance sheet. We support the Board for referencing existing guidance as Topic 820 within U.S. GAAP is well understood and measuring the assets at fair value would be the best depiction of the value held by a reporting entity at a given time. Furthermore, we agree with the Board's decision to reject 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 the entity disclose the current fair value. By prohibiting recognition of increases in price movement, the historical cost with modified impairment approach would not be an accurate reflection of the underlying economics of the crypto assets. Additionally, we believe there will generally be quoted market prices in an active market available for these types of assets. In situations where there is no active market, the value of the asset will likely be low (i.e., there will be no unrealized gains to recognize).[3] We agree with the Board that Topic 820 provides sufficient guidance for determining the fair value in an inactive market.[4]

Currently, crypto assets in the scope of the proposed Update are initially measured at cost which represents the value of the cash paid, including transaction costs. Transaction costs can include the transaction fees that exchanges charge to purchase crypto assets, and many consumer exchanges will also add a spread to the exchange rate to determine the price. We recognize the Board decided transaction costs should be expensed as incurred unless an entity capitalizes those costs in accordance with industry-specific guidance and that bid-ask spreads would not be considered a transaction cost and, therefore, would not be expensed

[2] See BC17 in the Exposure Draft.
[3] See BC32 in the Exposure Draft.
[4] See BC28 in the Exposure Draft.

as incurred.[5] However, we believe a requirement to expense transaction costs upon initial measurement, but not a spread added to the price, would be inconsistent as both represent transaction costs to the crypto assets. In practice today, reporting entities may use judgment to include transaction costs upon initial measurement of equity securities and then subsequently recognize the costs in net income as part of the adjustment of the carrying amount to fair value.[6] Given the inconsistencies that may result, we suggest the Board consider not requiring entities to expense transaction costs upon initial measurement as this is consistent with the accounting for other securities under U.S. GAAP.

Presentation

We are supportive of the proposed presentation requirements to separately present crypto assets from other intangible assets in the balance sheet, as well as the changes in the fair value of those crypto assets from amortization or impairment of other intangible assets in the income statement. The nature of crypto assets is dissimilar from typical intangible assets, as crypto assets present a unique risk profile which we believe warrants separate disclosure from other intangibles and provides additional transparency to investors. Additionally, we agree with the requirement to classify crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash as an operating activity in the statement of cash flows. Requiring such cash flows as an operating activity is consistent with existing cash flow classification guidance for loans and securities.[7]

Disclosure and Implementation Guidance

We generally support the proposed disclosure requirements in the proposed Update; however, we do not support requiring an entity to disclose on either an annual or interim basis, a reconciliation of the opening and closing balances of crypto assets, which would include additions, dispositions, gains, and losses during the reporting period. The regular interim and annual disclosure of the cost and fair value of significant holdings will provide users with information about a company's related risks to holding crypto assets, so a rollforward of activity on an interim or annual basis would be duplicative. The reconciliation on both an interim and annual basis may result in an undue reporting burden for companies that transact in crypto assets for day-to-day operations as compared to those holding crypto assets for investment purposes. Additionally, this requirement appears to be inconsistent with other fair value disclosure requirements as gains and losses are not typically presented separately. We are aware the Board similarly questioned whether the additional reconciliation requirements would provide incremental decision-useful information to investors in light of the proposed disclosures about significant crypto asset holdings and propose the Board reconsider the requirement.[8] Furthermore, we recommend the Board reconsider the requirement to disclose the gross cumulative realized gains and losses resulting from crypto asset disposals in the period. All changes in fair value will be recorded in net income, regardless of whether the gains or losses are realized or

[5] See BC29 in the Exposure Draft.
[6] See ASC 321-10-35.
[7] See ASC 230-10-45-19.
[8] See BC58 in the Exposure Draft.

unrealized. The receipt or payment of cash, or the conversion of a crypto asset from one form to another, would not impact net income, which raises a question as to the relevance of this disclosure requirement. We believe a user could gather an understanding of an entity's effectiveness over the management of its crypto assets through the cash flow statement and significant holdings disclosure,[9] and as such, believe the decision-useful information can be found there rather than in this additional disclosure.

Other than the proposed requirement for a reconciliation outlined above, we find the proposed disclosure requirements to be operable in terms of systems, internal controls, or other similar considerations related to the required information. We agree with the Board's decision that the proposed disclosures are adequate and additional disclosures, such as those described in the Basis of Conclusions,[10] are unnecessary as similar information could be obtained by disclosures included in the proposed Update. Specifically, we support the language to disclose the description of the nature of activities in conjunction with the disclosure of cost, units held, and fair value at each interim period as this will provide investors and other users of financial statements the ability to understand if an entity's usage of crypto assets is increasing or decreasing and which crypto assets are driving the fair value changes presented in earnings. In addition, we generally agree with the requirement that an entity disclose the cost basis of crypto assets separately for each significant crypto asset holding. We appreciate the Board deciding to not prescribe which cost method reporting entities must use as most entities have a method established for tracking the cost basis (i.e., specific identification, first in first out (FIFO), last in first out (LIFO), weighted average, etc.).[11] These methods are well understood and utilized in the securities space. Lastly, we believe the guidance in Topic 820 and Topic 850 is operable and provides sufficient guidance for an entity to measure the fair value of crypto assets and evaluate and disclose related party transactions involving crypto assets. Both Topic 820 and Topic 850 are well understood in practice today and can be applied to crypto assets.

Transition and Effective Date

We support the requirement 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). The cumulative-effect transition approach is consistent with other standards such as ASC 606 and ASC 326. We acknowledge and appreciate the Board's decision to not require a full retrospective approach. We expect there to be incremental costs related to the additional disclosures required; however, we do not anticipate these costs to be a significant burden. As such, we believe most companies will be able to adopt the proposed amendments one year after a final rule is issued and support early adoption being permitted.

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[9] See BC57 in the Exposure Draft.
[10] See BC60 in the Exposure Draft.
[11] See BC51 in the Exposure Draft.

Furthermore, we believe the financial reporting and disclosure requirements included in the proposed amendments will be auditable. We expect the majority of the assets in scope to be traded on an active market and would not expect the auditability to differ from other fair value asset classes.

Conclusion

We appreciate this opportunity to provide feedback on the proposed Update related to the accounting for and disclosure of crypto assets. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International