

FASB Zeroes in on Fair Value Accounting for Crypto Assets

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The Financial Accounting Standards Board (FASB) recently reached a tentative decision about the accounting for crypto assets that:

- are created or reside on a blockchain,
- are secured through cryptography,
- do not provide rights, or claims on underlying goods or services,
- are fungible and
- are currently accounted for as intangible assets under US GAAP.

According to the FASB, “The Board decided to require an entity to measure crypto assets at fair value, using Topic 820, Fair Value Measurement.”

The new guidance will exclude NFTs (nonfungible tokens) from the fair value treatment.

Point by Point: Then and Now

Under the current standards, reporting entities treat crypto assets as intangible assets, which is similar to intellectual property including copyrights and trademarks. Under this method of accounting, entities initially measure the crypto assets at cost and perform a test for impairment annually, or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired and only recognize an adjustment when the fair value is less than the carrying value. Given the volatility of the fair market value of crypto assets, this could result in misleading financial statements as the carrying values may be significantly higher than the fair market value as of the reporting date. Under the fair value method of accounting, a company's holdings in crypto assets will be reflective of the current market conditions for those crypto assets.

Secondly, the FASB also decided that, for subsequent measurement, entities should “recognize increases and decreases in fair value in comprehensive income in each reporting period.” As mentioned earlier, since the fair market value of crypto assets can be volatile, this new reporting framework will better align a company's financial performance with market performance.

Lastly, the FASB decided to require an entity to “recognize certain costs incurred to acquire crypto assets, for example commissions, as an expense (absent specialized industry measurement guidance).” This decision by the FASB paves the way for new accounting treatment for crypto assets and is welcomed by many in the industry. We believe this is just the start of regulatory guidance for crypto assets.

Exposure Draft to Follow

The FASB will issue an Exposure Draft covering the proposed accounting standards update and seek comments from the public prior to issuing an ASU. The FASB has yet to issue guidance on presentation and disclosures.

Contact Us

If you would like to discuss how PKFOD's experts can assist you with accounting for crypto assets, contact a member of your client service team or any of the following:

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