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June 6, 2023

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

Via Email to [director@fasb.org](mailto:director@fasb.org)

**Re: File Reference No. 2023-ED200**

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*.

Overall, we agree with the Proposed Update and believe that fair value is the most appropriate measurement for crypto assets. We have provided some feedback and suggestions that we believe could enhance the understandability and operability of the guidance, especially by clarifying the scope criteria and the disclosures around a crypto asset's cost basis. We ask the FASB to continue monitoring the ongoing development of blockchain technology and its financial statement impact in future standard-setting endeavors.

We also believe that the FASB should consider adding a project to its agenda to provide recognition and derecognition guidance for crypto assets. Currently, entities follow the intangible assets guidance for recognizing and derecognizing crypto assets; however, the economics behind many crypto asset transactions is actually similar to the underlying economics of financial assets. Since the recognition and derecognition guidance significantly differs for nonfinancial and financial assets in U.S. GAAP, we believe clarifying which model better reflects the economics of crypto asset transactions would be beneficial for the practice.

Our responses to selected questions for respondents follow.

**Question 1: Are the proposed scope criteria understandable and operable? Please explain why or why not and, if not, what changes you would make.**

Overall, we agree with the scope criteria, and believe that the population of digital assets that are identified within the scope is appropriately narrow. However, we believe that certain of the proposed scope criteria could raise operational concerns, as outlined below.

*Criterion (b) – Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets*

We believe that the term “enforceable” in the criterion above is not clearly defined. The proposed language does not specify whether this criterion specifies *legal* enforceability or is relying on some other threshold, such as *practical* enforceability. This ambiguity would make the standard difficult to apply, as the rights contained in certain digital asset contracts may already be difficult to identify, and the lack of legal precedent involving crypto assets could complicate judgments about whether these contracts are legally enforceable. Additionally, without further clarification of this criterion, it may be challenging for auditors to obtain sufficient and appropriate evidence necessary to validate whether a specific crypto asset provides enforceable rights or claims to the holder.

Furthermore, we believe Criterion (b) needs to clarify whether a right to a good that will exist in the future could be considered an enforceable right. For example, in a scenario where a crypto asset gives the holder the right to purchase in the future a tech product that has not yet been developed, it is not clear whether that right could be considered enforceable or could become enforceable in the future.

We believe these concerns could be mitigated by providing guidance on how to determine the enforceability of a right or claim that the crypto asset may provide to its holder. We believe without such clarification, diversity in practice may develop in how entities apply this criterion to certain crypto assets.

*Criterion (f) – Are not created or issued by the reporting entity or its related parties*

We believe that additional clarification is needed to define what constitutes the *creation* of a crypto asset. Without such clarification, there could be diversity in practice regarding whether certain crypto assets held by entities that are involved in mining activities would be scoped out of the proposed amendments.

Additionally, it is not clear at what point, if any, this criterion would cease to apply to the creator of a blockchain. If this criterion would always apply to an entity and its related parties that are involved in developing a blockchain, we believe this could be considered unintentionally punitive to the developer. For example, if an entity creates (or is involved in creation of) a public blockchain, that entity could be considered the creator at inception in accordance with Criterion (f). However, as blockchains operate on a consensus mechanism, the creator entity’s involvement in the blockchain will eventually be similar to any other entity that provides mining services on that blockchain. It is unclear whether the creator entity would still be precluded from applying the proposed guidance to the crypto asset that it receives by providing ongoing mining services on the blockchain. In addition, it is also unclear what guidance a creator entity would apply to crypto assets related to that blockchain that it controls or receives outside of the mining activity. Further, if an entity is involved

*solely* in maintaining a blockchain (such as updating the code for technological advances or fixing bugs), we believe the proposed guidance is unclear as to whether this entity would be considered the *creator* and therefore be precluded from applying the proposed guidance to the crypto asset related to that blockchain.

In addition, we believe the discussion related to mining activity included in paragraph 14 of the Basis for Conclusions (BC14) of the Proposed Update should be included in the Codification guidance. The discussion in paragraph BC14 states 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*” [emphasis added]. In addition to including the discussion in BC14 in the Codification, we believe that the Board’s intent could be clarified as it is unclear whether the above referenced sentence from BC14 refers only to the crypto asset received from performing mining services, or if it applies to *all* crypto assets related to that blockchain held by the mining entity.

#### *Other comments*

Additionally, we believe that providing a definition for terms such as “blockchain” and “cryptography” would be beneficial and add clarity to the proposed Update. As this technology is rapidly developing, clarifying the definitions used in developing the standard would allow for continued application, even if the terminology changes in the future, and would help to mitigate auditability issues as crypto assets and the related technology continue to evolve.

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

We agree that the population of crypto assets identified by the proposed scope criteria is appropriate; however, we believe the Board could reduce the potential for diversity in practice by clarifying in the Codification amendments its decision that wrapped tokens be excluded from the scope of the proposed guidance.

Based on paragraph BC17 in the proposal, we believe that it is the Board’s intent to view wrapped tokens as crypto assets that provide the holder with enforceable rights to other assets, which means they are outside the scope of the proposed amendments. We agree with this intent; however, we are aware of a possible interpretation that if a crypto asset provides the holder with enforceable rights to another asset that is *within the scope* of the proposed amendments, then an entity might believe that this crypto asset meets Criteria (b) in ASC 350-60-15-1. We therefore ask the Board to clarify this issue in the Codification section of the proposed amendments to avoid any misinterpretation in practice.

#### **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.**

We agree that the amendments in this proposed Update should apply to all entities. We do not see any reason to create an exception for any specific type of entity.

**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.**

We agree with the proposed requirement that would require entities to subsequently measure in-scope crypto assets at fair value in accordance with ASC 820. We believe that fair value is an appropriate measure and that ASC 820 provides sufficient guidance to determine fair value for crypto assets.

Furthermore, we considered the alternatives for measuring crypto assets without quoted prices in active markets, as discussed in paragraphs BC31 through BC36 in the proposal, and agree with the Board's decision not to pursue those potential alternatives.

**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?**

We defer to the views of financial statement users on whether the rejected alternative would have provided decision-useful information.

We would define an "inactive market" as a market that does not meet the criteria for an "active market," as defined in the Codification's Master Glossary. However, we acknowledge that there could be significant judgment in this area due to the use of such terms as "sufficient frequency and volume" in the definition of active market, as well as the current crypto asset landscape, which does not currently have centralized marketplaces.

**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.**

While we acknowledge the Board's reasoning for providing this guidance for transaction costs for crypto assets, we note that such treatment does not align with the accounting for intangible assets that are not acquired in a business combination under ASC 350. That guidance requires assets to be recognized based on their cost to the acquiring entity, which generally includes the transaction costs. Nor does this proposed guidance align with the absence of guidance on transaction costs for financial assets that are economically similar under ASC 320 and ASC 321.

Further, as the Proposed Update does not require expensed transaction costs to be presented separately, this treatment would not provide additional insight about these costs to users of the financial statements. If the Board were to require capitalizing the

costs as part of the crypto asset, those costs would be included in the remeasurement of the crypto asset to fair value; therefore, such treatment would not result in the long-term deferral of those amounts and instead would primarily impact the income statement geography of the expense.

We believe that the considerations discussed in BC30 of the proposal more clearly align with existing guidance and practice with respect to transaction costs.

**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.**

We agree with the proposed requirement to present crypto assets separately from other intangible assets in the balance sheet, as the measurement method will be different for crypto assets measured at fair value compared to other intangible assets measured at historical cost less amortization (if finite-lived) and impairment. We also agree that the change in fair value of crypto assets should be presented separately from impairment loss and amortization expense. However, we believe that the proposed guidance in ASC 350-60-45-2, which *requires* separate presentation of fair value gains and losses in the income statement, and the proposed guidance in ASC 350-60-50-4, which requires disclosure if the fair value gains and losses are not presented separately, are contradictory and should be clarified.

In addition, we ask the Board to clarify two points: (1) whether an entity that presents a subtotal representing income (loss) from operations should present the fair value gains and losses from crypto assets either within or outside such a subtotal, and (2) whether an entity can separately present realized gains and losses within such subtotal and present unrealized gains (losses) outside such a subtotal.

**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.**

We agree with the Board's proposal to classify such cash flows as an operating activity in the statement of cash flows. We believe that this presentation more accurately reflects the economics of the transaction compared to a classification as investing activities, and that the proposed guidance will reduce the potential for diversity in practice related to this issue. We note that there are currently similar requirements in place for not-for-profit entities, which are operational and well understood in practice.

We ask the Board to further clarify whether an entity involved in lending and borrowing crypto assets who receives crypto assets and immediately converts some, if not all, to cash would be within the scope of the proposed guidance in ASC 230-10-45-27A. In addition, we believe the proposed guidance should clarify that crypto

assets converted into cash do not need to be the same crypto assets that were received as noncash consideration, since crypto assets are fungible and it would be operationally difficult to identify which assets were converted to cash. For example, an entity that runs an exchange, is a miner of crypto assets, and is involved in lending and borrowing transactions may receive crypto assets through various means and would most likely convert some to cash for operational purposes. For such an entity, it would be operationally difficult to then create a trail of when each crypto asset was received and which one was converted to cash.

**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.**

We acknowledge the Board's reasoning in BC51 for not prescribing a method for determining the cost basis of crypto asset. However, we believe that the lack of explicit guidance on acceptable methodologies of a cost method for crypto assets could create significant diversity in practice, leading to operability and auditability concerns in applying the proposed guidance. Specifically, we are concerned that the language in the proposed guidance in ASC 350-60-50-2 that allows for "other methods" could open the door to a variety of cost methods, which could have a significant impact on the accounting for and disclosure of crypto assets.

Furthermore, certain features of crypto assets cause the accounting for the cost method to be more complex than for other assets, specifically relating to the unit of account, since crypto assets generally are divisible into infinitely small units. To illustrate, consider an entity that buys and sells a certain crypto asset both as a full coin but also as a partial interest. In such a scenario, it would be difficult to determine what unit of account should be used to ensure that a given cost method, such as first-in-first-out, would be consistently applied.

To alleviate these concerns, we suggest that the Board consider prescribing acceptable cost methods.

**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.**

We agree that the proposed disclosure requirements are operable, but recommend addressing the following questions:

- Which line item in the balance sheet does the term *significant* in the proposed guidance in ASC 350-60-50-1 relate to? For example, should the holding be considered significant in relation to total crypto assets held, total intangibles assets, total assets held, or some other balance-sheet subtotal?
- Should the disclosures of dispositions in the roll-forward required in ASC 350-60-50-3 include crypto lending transactions? In addition, should entities

apply the same “significant” threshold in ASC 350-60-50-1 to calculate gains and losses required by the proposed roll-forward disclosure?

**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.**

We agree that ASC 820 and ASC 850 provide sufficient guidance to measure the fair value of crypto assets and to disclose related party transactions involving crypto assets. We do not believe that creating asset-specific guidance for crypto assets in these areas is necessary and note that, if created, may trigger diversity in practice.

**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.**

We agree with the proposed transition guidance and believe it is operable. However, we ask the Board to consider allowing full retrospective application if an entity chooses to do so. Despite the discussion in proposed BC63 that indicates a full retrospective application could be complex and costly, we believe that some entities may prefer full retrospective adoption because they already may be tracking such information for internal management reporting purposes.

**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.**

In our view, the proposed amendments would impose incremental costs on both a one-time and recurring basis due to the additional time needed to prepare and audit the proposed disclosures.

In most cases, we believe that these incremental costs would not be significant. However, for entities with holdings of crypto assets that are not traded in an active market, the cost to determine fair value could be significant on an ongoing basis. Additionally, some service providers may not provide or be able to obtain the level of data necessary to accurately present the bifurcation between realized and unrealized gain. Therefore, the cost of adopting the proposed amendments might vary depending on the entity.

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



As discussed in our responses to questions 1 and 9, our primary concerns related to auditability revolve around the use of the word “enforceable” in Criterion (b), the need to distinguish between a *creator* and an *issuer* in Criterion (f), the lack of definitions for certain terms such as “blockchain” and “cryptography,” and the decision not to include defined guidance on appropriate methodologies for determining the cost basis for crypto assets.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner, at 312-602-8084 or [rahul.gupta@us.gt.com](mailto:rahul.gupta@us.gt.com) or Carolyn Warger, Partner, at 617-848-4838 or [carolyn.warger@us.gt.com](mailto:carolyn.warger@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP