FASB's New Guidance on Accounting for Crypto Assets

By Josef Rashty

In December 2023, FASB issued ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60)*. This final guidance requires all entities to measure certain crypto assets they hold at fair value and reflect the changes in fair value in net income each reporting period. Entities should present crypto assets at fair value separately from other intangible assets on their balance sheets and present changes in the fair value of crypto assets apart from changes in the carrying amounts of other intangible assets in their income statements.

FASB concluded that the existing guidance—which reflects only the decreases, but not the increases, in the value of crypto assets until companies dispose of them—does not provide relevant financial information because they do not reflect the underlying economics of crypto assets and their holders' financial position.

This article expounds on the opposing arguments for the classification of crypto assets. Furthermore, it articulates FASB's position on its new guidance and clarifies the accounting implications of ASU 2023-08 compared to the existing guidance.

Arguments for Classification of Cryptocurrencies

U.S. GAAP defines cryptocurrencies as digital records that use cryptography for verification and security purposes on a decentralized distributed ledger (blockchain). FASB did not have any guidance on cryptocurrencies; as a result, ASC 350, *Intangibles—Goodwill and Other*, guided the accounting for cryptocurrencies, termed "crypto assets."

There is an argument that cryptocurrencies typically aspire to some additional purpose, such as facilitating transactions, and should be treated as commodities, like gold and silver. There is another argument that cryptocurrencies are a form of money. There is an additional argument that cryptocurrencies have the potential to serve as a universal medium of international payment and purchasing.

Cryptocurrencies as Commodities

Cryptocurrencies resemble commodities, but they are not commodities. Cryptocurrencies have a "mining" cycle, with characteristics similar to gold and silver, that can function as a form of money. However, the price of gold and silver may also rise or fall independent of exchanged commodities because they have commercial and industrial values independent of their roles as a form of money. Modern economies no longer use precious metals and other commodities as money. We can, however, view cryptocurrencies as commodities—with some important caveats—which may have been FASB's position by classifying them as intangible assets.

Cryptocurrencies and Speculation

Amid the late global market rout of cryptocurrencies, Bill Gates commented that cryptocurrencies and NFTs (non-fungible tokens) function based on the "greater fool theory." People buy cryptocurrencies because they think someone else will pay more for them in the future; thus, no matter what the price is now, they can sell them at a higher price (*Wall Street Journal*. June 16, 2022) Gates apparently disregards the idea that cryptocurrencies can play the role of money—but can they?

Cryptocurrencies as a Form of Money

In his early writings, Karl Marx speaks of money as "the universal whore," a medium of exchange that negates the content of goods or services by substituting for them as an impersonal standard. Marx argued that money allows us to trade anything for anything, regardless of the similarity of the qualities of the goods involved. (*Das Kapital*, trans. Samuel Moore and Edward Aveling, Wordsworth Edition Limited, 2013). Ludwig von Mises defined money as a medium that facilitates business in the market by acting as a common intermediary (*The Theory of Money and Credit*, trans. H. E. Batson, Liberty Fund, 2015). John Maynard Keynes argued that the exchange value of money determines its utility, so the two rise and fall pari passu. (*The General Theory of Employment, Interest and Money*, Marcat International Ltd., 1936).

If these arguments are correct, cryptocurrencies can facilitate business transactions; thus, they function

as a form of money. Their current values, however, appear to be subject to speculation rather than exchange values. Cryptocurrencies have functioned outside the banking system, and, unlike the money in circulation, they cannot earn any interest.

Nevertheless, using cryptocurrencies as an international payment method has become more prevalent in recent years. Countries can use cryptocurrencies to bypass the Society for Worldwide Interbank Financial Telecommunications (SWIFT) system for international transactions. SWIFT is a member-owned cooperative that provides secure messaging for the international transfer of funds. The United States has imposed severe sanctions against many countries and companies for decades. These sanctions entice countries and companies to utilize cryptocurrencies as a method of payment outside of SWIFT to settle their international transactions and service their debts.

Cryptocurrencies as a Form of Security

GAAP permits companies to classify some debts and equity securities as available-for-sale securities (AFS) and report them at fair value, with unrealized gains and losses excluded from earnings and reported as a net amount in a separate component of shareholders' equity, subject to impairment. Companies report unrealized gains and losses net of related tax effects in other comprehensive income (OCI). But upon sale, companies report gains and losses in their earnings. ASC 320, "Investments-Debt Securities," requires that companies, when remeasuring security from the transacting currency to the functional currency, should report the change in fair value of AFS in a separate component of equity (i.e., OCI) (ASC 320-10-35-36).

There are compelling arguments that cryptocurrencies are not legal tender (i.e., cash or cash equivalents) or a contractual right to receive cash or cash equivalents.

Crypto Assets as Intangible Assets

The above arguments support FASB's view that cryptocurrencies are assets and justify their classification as intangible assets.

ASU 2023-08 defines crypto assets as intangible assets subject to the following criteria:

- ■ Meet the definition of intangible assets in the codification
- ■ Do not provide the asset holder with enforceable rights to or claim 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 (ASC 350-60-15-1).

Even though FASB's new guidance supports the classification of cryptocurrencies as intangible assets,

EXHIBIT 1
Initial Measurement of Crypto Assets

Type of Transaction	Initial Recognition as Intangible Assets
Companies purchase crypto assets using their own functional currencies.	The fair value of the currencies companies pay for acquisition plus any transaction costs.
Companies may receive crypto assets in exchange for goods and services they provide to customers in their ordinary course of business.	These transactions are usually within the scope of ASC 606, *Revenue from Contracts with Customers*. Companies measure any noncash consideration received in a revenue transaction at the fair value of the crypto assets they receive, rather than the fair value of what they give up at contract inception (ASC 606-10-32-21). Companies measure the fair value of the crypto assets as the transaction price when they have met all the requirements of ASC 606-10-25-1.
Companies may receive crypto assets as part of a business or asset acquisition.	Companies should account for the receipt of crypto assets they have acquired as part of a business or asset acquisition in accordance with ASC 805, *Business Combination*, at fair value.
Companies may receive crypto assets from a non-customer in an exchange.	Companies should account for such exchanges in accordance with ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets*, to determine the initial measurement of the acquired crypto assets.

it no longer prescribes the previous impairment model. ASU 2023-08 has substituted the existing impairment model with periodic fair value measurement. Furthermore, FASB recognizes that cryptocurrencies have some characteristics that are not typical of intangible assets. For example, they are fungible (companies can trade or replace them).

Prior GAAP Guidance

In December 2019, the AICPA issued its nonauthoritative Practice Aid, *Accounting for and Auditing of Digital Assets* (https://tinyurl.com/4cpns24w). The consensus in the AICPA Practice Aid is that companies should classify crypto assets on their balance sheets as indefinite-lived intangible assets subject to impairment. Generally, intangible assets lack physical substance and are not considered financial assets.

Companies do not amortize indefinite-lived intangible assets. Instead, they test them for impairment periodically or upon a triggering event, which indicates it is more likely than not that the indefinite-lived intangible asset is subject to impairment. FASB provides guidance that companies should consider when assessing the impairment of their indefinite-lived intangible assets (ASC 350-30-35-18B). Private companies, however, can elect to amortize the goodwill they have acquired in business combinations on a straight-line basis over ten years or less if the entity demonstrates that another useful life is more appropriate. It may also elect to use a one-step goodwill impairment test if needed (ASC 350-20-35-63).

FASB's stakeholders raised concerns that, among other factors, this traditional intangible asset model: 1) does not faithfully represent the economics of crypto assets, and 2) makes the recognition of impairments needlessly complex by requiring entities to use a crypto asset's lowest observable fair value within a reporting period. Accordingly, FASB proposed amendments that would better reflect the economics of crypto assets held by entities to reduce the complexity and cost of complying with a historical-cost-less-impairment model under the existing requirements in ASC 350.

FASB's New Guidance

ASU 2023-08 maintains the current classification of crypto assets as intangible assets, albeit replacing the impairment model with fair value measurement. The new guidance requires companies to measure the crypto assets at fair value and reflect the result in net income in every period.

Initial Measurement. ASU 2023-08 does not prescribe the initial measurement basis (e.g., cost or fair value) for acquired crypto assets (ASC 350-60-05-02). *Exhibit 1* summarizes the initial measurement cost basis under GAAP.

Subsequent Measurement. ASU 2023-08 requires companies to remeasure all their in-scope crypto assets at fair value under ASC Topic 820, *Fair Value Measurement*, and reflect the result in net income.

Classification and Disclosures

Companies should present crypto assets separately from other intangible assets on the balance sheet (ASC 350-60-45-1). Furthermore, they should reflect gains and losses from the remeasurement of crypto assets in net income separate from changes in the carrying amount of other intangible assets (ASC 350-60-45-2).

Companies should classify the crypto assets transaction as operating cash flows (ASC 350-60-45-3, ASC 230-10-45-21A, and ASC 230-10-45-27A).

ASU 2023-08 requires that companies disclose the following information in their interim and annual financial reports:

- Name of the crypto asset
- Cost basis
- Fair value
- Number of units held (ASC 350-60-50-1).

Furthermore, in their annual reports, companies should disclose the method used to determine the cost basis of their crypto assets for purposes of computing gains and losses (ASC 350-60-50-2). This could include methods such as, first in, first out (FIFO), specific identification, average cost, or any other method.

Accounting Illustration of Crypto Assets

The following is a comparative illustration of the impairment model versus the fair value model under prior GAAP and the new ASU 2023-08 guidance. The guidance is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years, for all entities. Early adoption is permitted.

The Impairment Model — Existing Guidance

Companies should determine the useful life of their intangible assets as finite or indefinite life. The useful life of an intangible asset is indefinite if no legal, regulatory, contractual, competitive, economic, or other factors limit its useful life to the reporting entity. Crypto assets usually have an indefinite useful life; thus, the accounting literature considers them indefinite-lived intangible assets.

The impairment test under ASC 350 is a one-step test that compares the fair value of crypto assets with their carrying values. If the fair value of an asset is less than its carrying value, companies recognize an impairment charge for the difference. Once the impairment is recorded, it cannot be reversed, even if the fair value of the crypto asset increases in subsequent periods.

Companies acquire crypto assets in different transactions at different times. FASB considers each individual acquisition of crypto asset as a separate unit of account for impairment testing purposes. Therefore, companies should maintain separate accounts for each acquisition of crypto assets to keep track of their different cost bases.

Exhibit 2 illuminates the above concept (it does not consider any tax implications).

EXHIBIT 2 Fair Value

Crypto Asset Unit of Account Acquisition	Year 1 Fair Value at Acquisition	End of Year 1 Fair Value	End of Year 2 Fair Value	End of Year 3 Fair Value
A	$100	$120	$130	$110
B	$110	$80	$90	$75
C	$120	$130	$80	$80

*The company sells these cryptocurrencies at the end of Year 3.

Recognized Gains and Losses

Crypto Asset Unit of Account Acquisition	Year 1 Fair Value at Acquisition	Year 1 Gains (Losses)	Year 2 Gains (Losses)	Year 3 Gains (Losses)
A	$100	$0	$0	$10
B	$110	($30)	$0	($5)
C	$120	$0	($40)	$0
Total		($30)	($40)	$5

Unrecognized Gains and Losses

Unit of Account	Year 1 Acquisition of Cryptocurrencies	Year 1 Unrecognized Gains (Losses)	Year 2 Unrecognized Gains (Losses)	Year 1 Unrecognized Gains (Losses)
A	$100	$20	$10	$0
B	$110	($30)	$10	$0
C	$120	$10	$0	$0

EXHIBIT 3 Recognition of Gains and Losses

Crypto Asset Unit of Account Acquisition	Year 1 Fair Value at Acquisition	Year 1 Gains (Losses)	Year 2 Gains (Losses)	Year 3 Gains (Losses)
A	$100	$20	$10	($20)
B	$110	($30)	$10	($15)
C	$120	$10	($50)	$0
Total		$0	($30)	($35)

EXHIBIT 4 Comparative Analysis of the Existing and New Guidance

Crypto Asset Unit of Account Acquisition	Year 1	Year 2	Year 3	Total
New guidance	$0	($30)	($35)	($65)
Existing guidance	($30)	($40)	$5	($65)

Fair Value Measurement — New Guidance

The new guidance under ASU 2023-08 recognizes crypto assets as intangible assets (similar to existing guidance); however, it has substituted the impairment model with fair value measurement. Thus, the reporting entity measures crypto assets at fair value in each reporting period and recognizes changes in net income.

This provision of the guidance is similar to ASC 830, *Foreign Currency Matters*, for the measurement of foreign currencies in transactions denominated in currencies other than the company's functional currency.

Exhibit 3 illustrates the gains and losses under FASB's new guidance based on the same example (it does not consider any tax implications).

Exhibit 4 compares the gains and losses under the prior and new guidance.

Tax Implications of Cryptocurrencies

The IRS provided guidance in Notice 2014-21, later supplemented by Revenue Ruling 2019-24, relevant to crypto assets. This guidance requires companies to treat crypto assets as properties rather than currencies and apply general tax principles related to property transactions to crypto assets. Taxpayers can classify their holding crypto assets as business, investment, capital asset, or inventory.

The following are some examples of the tax treatment of crypto assets:

- Companies that receive crypto assets for goods delivered and services performed should include them in earnings at fair value.
- Companies that exchange crypto assets for other properties recognize a gain on the exchange if their adjusted basis in the crypto assets is less than the fair value of the property they have received or at a loss if it is more.
- Companies that sell their holding in crypto assets generally recognize capital gain or loss upon disposition of their crypto assets.
- Companies that sell crypto assets they hold as noncapital assets (e.g., inventory) generally recognize ordinary income upon their disposition.
- Companies that pay their employees' wages in the form of crypto assets should include their fair value for payroll tax withholding purposes.

Accounting Implications of Cryptocurrency 'Mining'

Mining is the process of creating new cryptocurrencies and bringing them into circulation by solving complex mathematical problems, and it is a fundamental component of blockchain technology. Cryptocurrency miners often require many sophisticated and powerful computers that consume significant electrical resources. Companies that engage in mining activities credit their mining income account and debit the newly generated cryptocurrency assets in their books at fair value as income. They reflect the cost of electricity and depreciation of capital assets as expenses.

Similarly, for tax purposes, companies should reflect the fair value of the mined crypto assets in gross income at the date of acquisition.

Understanding the Implications

This article presented a compendium of economic and accounting theories dealing with the classification of cryptocurrencies to provide insight into FASB's new guidance and its implications. It refuted the views that cryptocurrencies are commodities or a form of money; however, it reinforced the validity of the FASB's position that cryptocurrencies are assets and defended the argument that companies should reflect gains and losses due to changes in their fair value in net income. ■

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