CFA Institute

292 Madison Ave
2nd Floor
New York, NY
10017-6323 USA

+1 (212) 754 8012 tel
+1 (212) 756 7730 fax
info@cfainstitute.org
www.cfainstitute.org

August 8, 2023

Richard R. Jones
Chair
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116
File Reference No. 2023-ED200

Dear Chair Jones and Members of the Board:

CFA Institute[1] appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board ("FASB" or "Board") Proposed Accounting Standards Update – *Intangibles–Goodwill and Other–Crypto Assets (Subtopic 350-60)–Accounting for and Disclosure of Crypto Assets* ("the Proposed Update").

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. We are providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protection. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

EXECUTIVE SUMMARY

Overall, we commend the Board for taking on a project to improve the accounting for crypto assets – an area that has long needed attention.

Scope – We believe the Proposed Update will improve the accounting for crypto assets within its scope, but we are concerned that the scope is either not broad enough or that another project needs to be initiated for crypto assets outside of its scope, such as wrapped tokens and crypto assets issued by the reporting entity.

Measurement – Further, we are not sure all those who authored letters to the FASB during the 2021 Agenda Consultation request recognize the challenges ahead in applying the provisions of fair value accounting under Topic 820, *Fair Value Measurement*, for those crypto assets other than those in active markets. How, or if, fair values can be determined for items considered other than in active markets (i.e., level 2 or 3 fair values within the fair value hierarchy – or even how to make that distinction) is something that many may not have fully considered. We believe this is a topic the FASB will ultimately need to address or require additional disclosures to provide investors with the necessary caution when such valuations are determined. Fair values in inactive markets for crypto assets are measurements needing thorough vetting by investors.

1 With offices in Charlottesville, New York, Washington, DC, Brussels, Hong Kong, Mumbai, Beijing, Shanghai, Abu Dhabi and London, CFA Institute is a global, not-for-profit professional association of more than 181,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program.

CFA Institute

Achievable Standard Setting: The Scope Reducing Approach – We understand the Board is concerned with producing standards within a reasonable time but known existing reporting issues must be addressed. The Proposed Update's scope is so narrow that we wonder what will happen to the reporting of crypto assets outside of the Proposed Update's reach. Will issuers of their own crypto assets account for them by the prior guidelines, or will they account for them by analogy to the new standard? The same question applies to reporting entities holding wrapped tokens. Rather than expanding the scope of this Proposed Update, we recommend that the Board add a separate project for the crypto assets outside its scope.

SPECIFIC QUESTION RESPONSES

Scope

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

We believe the Proposed Update's scope's six criteria are understandable and operable for the crypto assets covered.

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

We believe that the scope criteria would lead to improved reporting for a certain well known and readily traded existing crypto assets, while leaving other crypto assets out of its scope and still subject to measurement uncertainty.

While we believe the scope is a good starting point for improving the financial reporting of crypto assets, we do not believe that it is the last project that the Board will need to undertake in this area.

As we mentioned in our executive summary, the scope excludes crypto assets created by a reporting entity. In its basis for conclusions, the Board seems to have relied on the fact that "stakeholders did not ask that the Board address the issuer's accounting." We find this to be an insufficient reason for ignoring the issue. While we cannot determine the degree of pervasiveness to which these kinds of crypto assets exist in the reporting population, they have been problematic for certain failed crypto enterprises. The same is true for wrapped tokens, which also fall outside the Proposed Update's scope.

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 with the breadth of the Proposed Update's applicability. We believe that all entities that engage in crypto asset transactions should be governed by the same accounting rules. As we have long stated, the form or capital structure of an organization should not impose a difference in the accounting and reporting for any transactions.

Measurement

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 entities measure the specified crypto assets at fair value. We hold that fair value is the most relevant measure for reporting these assets. It is the most representationally faithful measure available to state such assets at their worth at a given point in time.

We note, however, as we address in the executive summary, the challenges with the application of Topic 820.

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?*

As we stated in our answer to Question 4, we believe that fair value best expresses the worth of crypto assets. We do not understand how using a one-direction write-down of crypto assets in a historical cost model, combined with fair value disclosures, could be more informative or decision-useful than full fair value reporting. That said, we believe – as we note in the response above – there are challenges which will emerge with the fair value of those crypto assets in inactive markets. We believe additional disclosures may be necessary based upon the unique nature of crypto assets (i.e., no underlying cash flows).

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.*

We agree with the proposed requirement. The crypto assets-only display would more clearly depict their fair value and volatility than if the commissions and transaction fees were included in their cost. Furthermore, if the reporting companies also disclose the commissions and transaction fees, it could provide investors with insight into the economics of such transactions.

Presentation

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 presentation of crypto assets. While we agree that they are intangible assets, we believe they are quite distinct from more traditional intangible assets, and they should be displayed on their own distinct line in the balance sheet. Similarly, we believe that their changes in fair value should be presented separately from amortization or impairment of other intangible assets. Fair value changes express what has happened to the value of an asset for a given period; they do not represent a mechanical expiration of value or an impairment for an asset reported at historical cost. Any combination of the two kinds of amounts would not be meaningful to users of financial statements.

We think it is important to note that while Paragraph 350-60-45-2 indicates the changes in fair value of crypto assets should be presented separately from other carrying value of intangible assets, it does not state that such change in fair value can't be combined with other changes in fair value. We expect that this change in fair value amount will not be included with the change in fair value of other assets, but we believe the FASB needs to make that clear. Similarly, we infer from the disclosure requirement in Paragraph 350-60-50-4 that gains and losses on the sale of crypto assets need not be separately presented on the income statement, but that this amount should be disclosed in the footnotes. Investors need to be able to identify both the realized gains/losses and the unrealized gains/losses on crypto assets to understand the total return on crypto assets during the year.

We think it is also important to note that while Question 6 highlights that costs incurred be expensed, we do not see where the FASB has required those costs to be separately presented or disclosed in Paragraphs 350-60-50-1 to 6. These expenses are an important factor in considering the total return on crypto assets.

See also response to Question 9 which follows related to disclosures.

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 understand the rationale for the operating section treatment in the cash flow statement: crypto assets received in the ordinary course of business and converted nearly immediately into cash related to operations, and not investing or financing cash flows. While we agree with this treatment, we believe that such transactions should be similarly classified in the income statement as belonging in operating income or loss. We understand that there is no definitive guidance for what constitutes operating income or loss in the presentation of the income statement. We believe, however, that if a standard defines crypto asset transactions as operating cash flows, then there should be symmetry in the income statement.

Disclosure

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 agree with this part of the Proposed Update. We believe that the concepts for determining the basis of crypto assets should be no different than other assets. We would, however, extend the annual disclosures in paragraphs 350-60-50-2, 350-60-50-3 and 350-60-50-4, to be required in interim financial reporting as well. The interim period disclosures required in 350-60-50-1 are simply too sparse to provide sufficient decision-useful information to financial statement users about an entity's crypto asset activities. Furthermore, earnings reporting happens four times a year: it would be useful for investors assessing the quality of those earnings to know whether crypto asset transactions were employed to meet or beat earnings estimates. The annual disclosures would give investors insights into this kind of behavior.

See also our comments regarding income statement presentation of realized and unrealized gains in Question 7 above.

We note that the FASB has chosen not to include guidance on the presentation of the cash flows related to crypto assets on the statement of cash flows. We believe the FASB should require disclosures of the location of crypto related cash flows in the footnotes to the financial statements.

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 believe the proposed disclosure requirements are operable for any entity that is involved with crypto assets. If entities involved with crypto assets are not sophisticated enough to be investing in internal controls for them and transactions involving them, then it begs the question of whether they really are sophisticated enough to be employing them.

Question 11: Should additional disclosures, such as those described in paragraph BC60 in the basis for conclusions, be required? *If so, what additional information should be disclosed? How would that information influence investment and capital allocation decisions?*

If the required disclosures are presented properly, the information in them should be mostly sufficient to aid in making investment decisions. We would note that information regarding the nature and purpose of holding crypto assets in Paragraph BC 60 would be a useful addition to Paragraph 350-60-50-3(a). The other additional disclosures in BC 60 might be marginally useful to investors, but they are not as critical as the required ones as well as the nature and purpose of the holding of crypto assets.

Question 12: *The proposed amendments would require that an entity annually* ***disclose a reconciliation of the opening and closing balances of crypto assets,*** *which would include* ***additions, dispositions, gains, and losses during the reporting period.*** *Would this proposed disclosure provide decision-useful information? Please explain how and for what purpose that information would be used or why it would not be useful. Should that information also be required on an interim basis? Please explain your response.*

We believe that this reconciliation of the crypto assets' balances is essential and would be extremely useful for investors making investment decisions. Such a reconciliation would provide quantitative information about an entity's activities with crypto assets, their effects on profitability, and the degree to which capital has been employed by entities utilizing crypto assets. Furthermore, it would make such activities visible across all entities using such assets.

We would also note that items such a business combinations and foreign exchange may also be necessary to reconcile balances between periods. The reconciliation needs to illustrate how all items presented roll forward the balance from period to period.

As we noted in our response to Question 9, we believe such disclosures should be required on an interim basis as well.

Implementation Guidance and Illustrations

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 believe the guidance regarding measurement of fair value of crypto assets and related party disclosures is sufficient and operable for crypto assets. Both have been in existence for years and there is nothing germane to crypto assets that makes the guidance non-applicable for them.

Transition and Effective Date

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.*

While we would not oppose a cumulative effect adjustment, we would typically prefer that a full retrospective adoption be applied especially with respect to the inclusion of the changes in fair value of such a volatile asset class within the income statement.

Question 15: How much time would be needed to implement the proposed amendments? *Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your response.*

We believe the proposed amendments could be implemented in a year or less. We may be over-optimistic in believing that firms have adequate internal controls over crypto assets and their reporting, but we prefer to think that most entities employing crypto assets already have in place the accounting and internal control systems for them.

Benefits

Question 16: Would the proposed requirement to subsequently measure crypto assets at fair value and the accompanying disclosures benefit investors by providing them with more decision-useful information? *If so, how would that information influence investment and capital allocation decisions? If not, please explain why.*

We are certain that the proposed requirement would aid investors in assessing the operating activities of affected entities, as well as providing criteria for assessing the quality of their reported earnings and balance sheets. Additionally, by providing visibility into crypto assets on balance sheets and through the activity showing in the reconciliation of the beginning and ending balances, the Proposed Update will help investors evaluate the soundness of capital allocation decisions made by management.

While some companies have disclosed the fair value in notes, the presentation on the balance sheet and income statement would improve decision-usefulness.

Costs and Auditability

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.*

As we indicated in our response to Question 15, we would expect that most entities employing crypto assets already have in place the accounting and internal control systems for them. If they do, then the disclosure requirements should present no great challenge to fulfill. If they do not have the requisite accounting and internal control systems in place that would be adequate to provide the required disclosures, then this Proposed Update should prompt them to implement those systems. We would not

CFA Institute

endorse a reduction of the disclosures to meet the needs of firms that have not yet invested in adequate systems; if they intend to employ crypto assets, then this standard should encourage them to make the proper investments.

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

We believe that the reporting and disclosure requirements will be auditable. The accounting for a wide range of crypto assets is delineated in this Proposed Update. Transactions with crypto assets should result in audit trails bearing evidence that can be obtained and verified by auditors.

As it relates to auditability, the application of Topic 820 for crypto in non-active markets may present challenges for auditors – just as it will for investors.

****

Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more details in our letter. If you have any questions or seek further elaboration of our views, please contact me at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy Advocacy
CFA Institute