CPA
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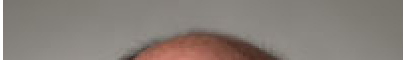
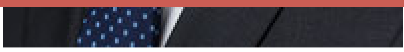
Jason Bramwell • Sep. 07, 2023

The Financial Accounting Standards Board (FASB) unanimously approved new rules on Sept. 6 that will now require certain cryptocurrency assets, such as Bitcoin and Ethereum, to be measured at fair value.





Richard Jones

"I think in my brief term here [as FASB chair] there hasn't been an issue that has excited such passion from people," FASB Chair Richard Jones said during the board's meeting Wednesday morning. "Our mission is to best reflect the economics of a transaction and provide investors and allocators of capital with the information they need. I think this [standard] moves the needle there. I think we heard overwhelmingly from investors that allocate capital based on the use of financial statements that this will provide them better information to make their decisions."

The new standard is expected to be published before the end of this year.

Last October, the FASB recommended that fair value was the right accounting method for crypto assets, which was a noteworthy development because there currently are no accounting or disclosure rules specifically for crypto assets. Most crypto assets are accounted for as indefinite-lived intangible assets, like trademarks, in the absence of crypto-specific U.S. GAAP.

The FASB said it received feedback that accounting for crypto assets as indefinite-lived intangible assets, which is a cost-less-impairment model, does not provide investors, lenders, creditors, and other allocators of capital with decision-useful information or reflect the underlying economics of those assets.

Measuring those assets at fair value would potentially reduce cost and complexity associated with applying the current cost-less-impairment accounting model, the FASB noted in its exposure draft for the crypto assets project.

"It's not very often that we can both take cost out of the system and improve the decision usefulness of information, and it makes it a really easy vote when we can do both of those," FASB member Christine Botosan said during the meeting.

The new rules would apply to crypto assets that meet all of the following criteria:

Bitcoin and Ethereum would fall within those guidelines, but nonfungible tokens (NFTs) and certain stablecoins, including so-called "wrapped tokens," would not.

Under the new rules, crypto assets would be presented separately from other intangible assets on the balance sheet. The primary reason for separate presentation is the difference in measurement bases between crypto assets within the scope of the project (fair value) and other intangible assets (cost less impairment), Sean Prince and Nicholas Topoll, a partner and a senior manager, respectively, at accounting firm Crowe, wrote in a brief about the standard last March. The FASB also concluded changes in the fair value of crypto assets should be presented separately in the income statement from changes in value (for example, impairment and amortization) of other intangible assets.

In addition, companies will disclose in their footnotes every reporting period significant holdings of crypto and any restrictions on those holdings, Bloomberg Tax reported on Wednesday. On an annual basis, they will have to reconcile—or disclose changes in the opening and closing balances of—their crypto assets, broken out by category. They will not need to include within the reconciliation activity information about crypto assets received as payments and immediately converted to cash, according to the FASB.

And because crypto will be measured at fair value, companies will be subject to the disclosures required in the applicable accounting rules, ASC 820, so financial statement readers know how companies came up with their measurements, according to Bloomberg Tax.

The accounting rules will be mandatory for all companies—public and private—for fiscal years beginning after Dec. 15, 2024, including interim periods within those years. This means 2025 adoption for calendar year-end companies. Companies will

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