

EARLY IMPRESSIONS

Accounting Standard Update ('ASU') 2023-08:
Accounting for and Disclosure of Crypto Assets

January 2024

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Foreword

The ever-increasing number of companies globally using bitcoin and other digital assets for a host of investment, operational, and transactional purposes necessitate the need for more prescriptive guidance on accounting for and disclosure of crypto assets. In July 2021, the Financial Accounting Standards Board ('FASB') or ('the Board') issued an Invitation to Comment-Agenda Consultation, soliciting feedback on its agenda and future plans. The FASB received over 500 comment letters, where an overwhelming majority of the commenters indicated that improving the accounting for and disclosure of crypto assets should be a top priority for the Board and contended that the current accounting model fails to provide investors with decision-useful information or accurately reflect the economics of an investor's holdings in crypto assets like bitcoin or ether.

In response, the FASB issued Accounting Standards Update ('ASU') 2023-08 which requires certain crypto assets to be measured at fair value and provide financial statement users with additional disclosures on entities' crypto asset holdings. The ASU aims to provide financial statement users with better information on how entities are holding and accounting for crypto assets.

This publication elucidates the key principles included in the ASU with respect to the subsequent measurement, presentation, and disclosure of crypto assets that fall within its purview. Additionally, included within this publication is a comparison of the new requirements to legacy practices.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to provide clarifications on our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

For Uniquus Consultech Inc.

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Background

Prior to the adoption of ASU 2023-08, entities, except those within the ambit of the investment-company guidance in ASC 946 or certain types of broker-dealers, accounted for crypto assets as indefinite-lived intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other. This entailed measuring the assets at historical cost less impairment. Notably, these crypto intangible assets were not amortized but were written down (impaired) to fair value whenever their fair value fell below their carrying amount. Such impairments were, however, deemed permanent and were not reversed, even if the fair value of the asset recovered during the same reporting period.

Among other factors, this intangible asset model (1) did not faithfully represent the economics of crypto assets and (2) made the recognition of impairments needlessly complex by requiring entities to use a crypto asset's lowest observable fair value within a reporting period.

With the aim to enhance decision-useful information about such assets and to better reflect the underlying economics of cryptocurrency transactions not just for users of cryptocurrencies but also for preparers and auditors, FASB issued ASU 2023-08, Accounting for and Disclosure of Crypto Assets on December 13, 2023 ('ASU'), which introduces Subtopic 350-60 (Crypto assets).



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Who is impacted by the amendment?

Entities scoped-in

- The amendments in this ASU apply to all entities (both private and public companies) holding certain crypto or digital assets but do not apply to entities applying industry-specific US GAAP (e.g. Topic 946 on investment companies).

Scoped-in digital assets

- Digital assets in scope of this ASU ('in-scope crypto assets') would likely include bitcoin, ethereum, doge and many smaller crypto assets by market cap e.g., litecoin.
- Para BC15 of the ASU clarifies that crypto assets created or issued by a reporting entity or its related parties are excluded from the scope of this ASU - which would mean that the existing intangible asset accounting model would apply. Therefore, issuer's accounting for crypto assets is outside the scope of this ASU

What are the main provisions of the amendment?

Subsequent Measurement

The new guidance requires entities to subsequently measure certain crypto assets at fair value, with gains or losses from remeasurement recorded in net income in each reporting period

Presentation

The crypto assets are presented separately from other intangible assets on the face of the balance sheet. Similarly, gains and losses from remeasurement are presented separately from impairments or other changes in carrying amount (eg amortization) of other intangible assets

Disclosure

Enhanced disclosures about holding and activity of crypto assets for interim and annual reporting

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Overview of changes in current practice upon adoption of ASU

Guidance Category	Extent of potential impact	Existing guidance on accounting of and auditing of digital assets guidance ¹	Amendments proposed by ASU 2023-08 ²
Scope	No material changes in the amendment	The guidance applies to all entities that hold a crypto asset meeting all of the following criteria: 1. Is an intangible asset; 2. Does not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets; 3. Is created or resides on a distributed ledger based on blockchain 4. Is secured through cryptography; 5. Is fungible; and 6. Is not created or issued by the reporting entity or its related parties. According to point 5, The guidance only pertains to “fungible” digital assets that qualify as intangible assets and does not take into account other types of digital assets, such as Non-Fungible Tokens ('NFTs').	The amendment extended the scope of point 3 to include “based on blockchain or a similar technology” to provide guidance for similar futuristic technologies. NFTs continue to remain outside the scope of the ASU because it lacks fungibility and fails to meet the goods and services criterion. Similarly, crypto assets that are in substance financial instruments remain outside the scope of this ASU.
Initial measurement (including treatment of acquisition cost)	Minimal impact	As an indefinite-lived intangible asset, these crypto assets purchased would initially be measured at cost. If the receipt of digital asset is a form of noncash consideration under ASC 606,	The ASU does not prescribe the initial measurement basis (e.g. cost, fair value) for acquired in-scope crypto assets. Therefore, entities may need to use existing ASC Topics based on the nature of

1. Foreword	Guidance Category	Extent of potential impact	Existing guidance on accounting of and auditing of digital assets guidance ¹	Amendments proposed by ASU 2023-08 ²
2. Background				
3. Who is impacted by the amendment?			entity would measure the noncash consideration (digital asset) at its estimated fair value at contract inception.	activity resulting in acquisition of the crypto assets, such as:
4. What are the main provisions of the amendment?			An entity would be required to recognize transaction costs to acquire a crypto asset, such as commissions and other related transaction fees, as an expense as incurred, unless applicable industry-specific guidance requires that the entity capitalize those costs.	• Purchased crypto assets are measured using the general intangibles guidance in Subtopic 350-30 • Crypto assets acquired in a business combination are measured using ASC 805 • Crypto assets received in exchange for goods or services are measured using Topic 606/Subtopic 610-20
5. Overview of changes in current practice upon adoption of ASU				Further, the ASU does not provide guidance on the recognition or presentation of transaction costs incurred in the acquisition of crypto assets. In general, it is likely that most transaction costs would generally qualify for capitalization on Day 1. The ongoing fair value measurement would in most cases nullify the impact of transaction costs from an income statement standpoint.
6. When is the amendment effective?				It is important to note that, the ASU does not amend the industry specific guidance issued for investment companies or broker-dealers that apply Topic 946 or Topic 940, respectively.
7. How should entities account for transition?				
8. Comparison to IFRS, as issued by IASB	Subsequent measurement	Material impact	The crypto asset is initially carried at the value determined in accordance with ASC 350-30-30-1 and is not subject to amortization. Rather, it should be tested for impairment annually or more	The ASU requires that an entity measure crypto assets at fair value under ASC 820 in the statement of financial position each reporting period and recognize changes from remeasurement in net income.

1. Foreword	Guidance Category	Extent of potential impact	Existing guidance on accounting of and auditing of digital assets guidance ¹	Amendments proposed by ASU 2023-08 ²
2. Background			frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired.	For the purposes of arriving at fair value of crypto asset, the amendments in this ASU do not provide any measurement alternatives for crypto assets without a quoted price in an active market.
3. Who is impacted by the amendment?			If the carrying amount of the asset exceeds its fair value, an entity is required to recognize an impairment loss and reduce the carrying amount of the asset to its fair value. Subsequent increases in the carrying amount of the asset and reversal of an impairment loss are prohibited.	Application of fair valuation principles in ASC 820 will likely be more challenging for crypto assets that are less frequently traded because of the difficulty in identifying the principal market to support a Level 1 fair value. In these cases, use of valuation techniques based upon observable inputs (other than quoted prices) or unobservable inputs for the specific crypto asset would be required and will likely lead to the same challenges that currently exists in the application of ASC 820.
4. What are the main provisions of the amendment?				
5. Overview of changes in current practice upon adoption of ASU				
6. When is the amendment effective?				In addition, fair value measurement aligns the accounting required for holders of crypto assets with the accounting for entities that are subject to certain industry-specific guidance (such as investment companies) and eliminates the requirement to test those assets for impairment, thereby reducing the associated cost and complexity of applying the current impairment model.
7. How should entities account for transition?				The SEC staff at the 2023 American Institute of Certified Public Accountants ('AICPA') & The Chartered Institute of Management Accountants ('CIMA') conference specifically highlighted that determination of the principal market or
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Guidance Category	Extent of potential impact	Existing guidance on accounting of and auditing of digital assets guidance ¹	Amendments proposed by ASU 2023-08 ²
			most advantageous market for crypto assets upon adoption of this ASU is expected to likely be a challenge.
Derecognition	Not addressed in the amendment	If the counterparty was a customer, the sale is presented as revenue when the control of digital assets sold are transferred as per the provisions of ASC 606 – Revenue recognition. If the counterparty is not a customer, it would be considered as a sale under ASC 610 – Other income, gains or losses from derecognition of NFA or ASC 845 – Nonmonetary transactions, depending on the nature. Any gain or loss would be presented outside of revenue.	No new guidance introduced. Depending on facts & circumstances, current applicable derecognition guidance would apply.
Presentation	More prescriptive guidance issued	Presentation guidance for crypto assets before the ASU was less prescriptive in nature. Due to lack of guidance, other Accounting Standard Codification and professional judgement was exercised. Crypto assets are presented separately in the Balance Sheet after impairment losses, if any and the impairment expense is presented in the income statement of the financials. When an entity receives crypto assets as a form of consideration for a routine operating activity or as a contribution that is immediately (or nearly immediately) converted to	Balance Sheet - Present aggregate amount of crypto assets measured at fair value separately from other intangible assets. While the ASU does not provide prescriptive guidance on how to classify crypto assets as current or noncurrent in a classified balance sheet, the guidance in ASC 210-10-45, Balance Sheet- Overall, should be considered in classifying crypto assets as either current or non current based on facts and circumstances. In most cases, non current classification would likely be more appropriate unless the crypto assets were acquired with an intention to be held for less than a year. In which case, current classification may also be appropriate. Regardless, elected policy should be disclosed and consistently applied in preparation of financial statements.

5. Overview of changes in current practice upon adoption of ASU

1. Foreword	Guidance Category	Extent of potential impact	Existing guidance on accounting of and auditing of digital assets guidance ¹	Amendments proposed by ASU 2023-08 ²
2. Background				Specific disclosures for crypto assets subject to contractual sale restrictions
3. Who is impacted by the amendment?				
4. What are the main provisions of the amendment?				
5. Overview of changes in current practice upon adoption of ASU			Other than SAB 121 there is no authoritative guidance that specifically addresses the accounting for crypto assets, therefore reporting entities should consider disclosures based on the relevant accounting standard applied.	Annual Reporting All interim disclosures  - A reconciliation in aggregate of activity in reporting period for crypto asset holdings (including additions, dispositions, gains and losses) - For dispositions during the period, the difference between disposal price and cost basis and a description of activities that resulted in disposition. - If gains and losses are not presented separately, the income statement line item in which those gains and losses are recognized. - The method for determining the cost basis of crypto assets.
6. When is the amendment effective?				
7. How should entities account for transition?				
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1. [Practice aid that contains nonauthoritative guidance on how to account for and audit digital assets here](#)

2. [ASU 2023-08 issued by FASB](#)

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When is the amendment effective?

Annual and interim periods

All entities for fiscal years beginning after December 15, 2024 (Calendar year 2025 or fiscal year 2026 onwards)

Is early adoption permitted?

Yes, in any interim or annual period for which an entity's financial statements have not been issued (or made available for issuance) as of the beginning of the entity's fiscal year.

How should entities account for transition?

In accordance with the ASU, entities are required to adopt the new Subtopic on a modified retrospective basis. When implementing the final standard, entities must record a cumulative-effect adjustment to retained earnings or other appropriate components of equity or net assets as of the beginning of the annual period of adoption. Any retroactive restatement will not be required or permitted for prior periods.

This approach will result in a cumulative-effect adjustment, including related tax consequences (including impact of the Corporate Alternative Minimum Tax ('CAMT') that was introduced by the Inflation Reduction Act, 2022 (effective for taxable years beginning after December 31, 2022), to retained earnings or other appropriate components of equity or net assets as of the beginning of the adoption fiscal year. It will be calculated as the difference between the carrying amount of in-scope crypto assets as of the beginning of the annual reporting period in which the entity adopts the ASU and the carrying amount of those crypto assets as of the end of the prior annual reporting period.

If an entity adopts the amendments in an interim period, they must adopt them as of the beginning of the fiscal year that includes that interim period.

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Comparison to IFRS, as issued by IASB

In June 2019, the IFRS Interpretations Committee ('IFRIC') clarified that cryptocurrencies (a subset of crypto assets that have certain characteristics that differ from the scope of the amendments in this ASU) held for sale in the ordinary course of business should be measured at the lower of cost and net realizable value in accordance with IAS 2, Inventories, unless the asset holder is a commodity broker-trader, in which case the cryptocurrencies should be measured at fair value less costs to sell. All other holdings of cryptocurrencies should be accounted for in accordance with IAS 38, Intangible Assets.

IAS 38 requires impairment testing of intangible assets, which is similar to current US GAAP. However, unlike current US GAAP, impairment losses may be reversed under certain circumstances. In addition, entities may elect to carry an intangible asset with an active market at a revalued amount, which is its fair value at the date of revaluation less any accumulated impairment losses that are recognized after the revaluation date. IFRS require that any changes in fair value above historical cost be recognized in other comprehensive income, while any changes in fair value below historical cost should be recognized in profit and loss.

There are similarities between the amendments in this Update and the IFRS revaluation model. One important similarity is that for crypto assets traded in active markets, if entities elect to apply the revaluation model in IAS 38, both require recognition of crypto assets at fair value on the balance sheet. There also are four key differences between the amendments and IFRS.

Those differences are that:

- The amendments apply to a subset of crypto assets that differ from cryptocurrencies as described by the IFRIC.
- The amendments require fair value measurement for crypto assets (a subset of intangible assets), whereas the revaluation model under IFRS is an election for intangible assets.
- The amendments require fair value measurement for crypto assets, whereas the revaluation model under IFRS requires reference to an active market for measuring at fair value.
- The amendments require the recognition of all remeasurements of crypto assets in net income, whereas IFRS requires recognition of any gains above original cost in other comprehensive income without recycling to net income.

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