June 5, 2023

Director@fasb.org
File Reference No. 2023-ED200
Technical Director
FASB
401 Merritt 7
PO Box 5116
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Re Proposed ASU: Accounting for and Disclosure of Crypto Assets

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below on the above-referenced exposure draft.

The PSC generally agrees with the proposed ASU concerning the accounting and disclosure for crypto assets. We believe that the proposal is appropriate and offers a better decision-useful model than the current amortized cost model. Included below are specific questions that we would like to express concern about or request additional information.

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

Response: While the proposed scope criteria is understandable and operable, the PSC does not think it is clear why crypto assets created or owned by a related party are excluded from the scope of the guidance as noted in paragraph 350-60-15-1(f).

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

Response: The PSC believes that the proposed scope criteria are appropriate. However, we note that the population of crypto assets for which fair value accounting will apply may be narrow as a result. As such, it may be appropriate for the FASB to reevaluate this definition in the future to determine if it includes all crypto assets as it was intended to address.

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.

Response: The PSC agrees with the proposal to apply the new standard to all entities.

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.

Response: The PSC believes that the measurement of crypto assets in accordance with Topic 820 appears reasonable. However, the PSC notes that since crypto markets do not close, there may be diversity in practice in determining the point in time at which crypto assets are measured at the end of the period.

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?

Response: The PSC does not believe that the alternative approach would provide more decision-useful information than the fair value approach. Also, if a crypto market is inactive, the asset may not meet the FASB's proposed definition of a crypto asset.

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 5 of Topic 946, Financial Services—Investment Companies). Do you agree with that proposed requirement? Please explain why or why not.

Response: The PSC agrees that the transaction costs should be expensed as incurred as that approach is consistent with the requirement to subsequently measure the crypto assets at FMV.

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.

Response: The PSC thinks that crypto assets, if material, should be presented separately from other intangible assets. We also agree that the change in valuation of material crypto assets should be presented separately from the amortization and impairment of other intangible assets.

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.

Response: The PSC agrees that crypto assets received as noncash consideration that are converted nearly immediately into cash should be classified with cash from operating activities in the statement of cash flows. We believe that the interpretation of "nearly immediately" provided by the last sentence of paragraph 230-10-45-27A is consistent with the way it is currently interpreted in practice as it relates to paragraph 230-10-45-21A. However, the PSC suggests that the FASB consider adding the last sentence of paragraph 230-10-45-27A to paragraph 230-10-45-21 to ensure consistency in application.

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.

Response: The PSC believes that disclosing the cost basis of each crypto asset holding is not necessary. We note that tracking and disclosing the cost basis of each significant crypto asset holding may be difficult and costly for entities that frequently transact in crypto assets. We also observe current guidance does not require the disclosure of the cost basis for other assets (such as assets accounted for under Topic 321) that are recognized at fair market value. We believe that the required disclosure for crypto assets should be similar to requirements for other investments carried at fair value.

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.

Response: The PSC is not opposed to including a reconciliation of opening and closing balances of crypto assets in the disclosures since it may be useful to investors to evaluate the performance of the company. This information should be readily obtainable as we believe most entities that hold crypto assets would already track this information.

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.

Response: The PSC believes that Topic 820 provides sufficient guidance to measure the fair value of crypto assets and that Topic 850 provides sufficient guidance for disclosing related party transactions. However, as previously noted, it is unclear why crypto assets created or issued by a related party are excluded from the proposed guidance as noted in paragraph 350-60-15-1(f).

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.

Response: The PSC agrees with the proposed requirement to adjust opening equity balances to reflect the cumulative effects of crypto asset transactions in the period of adoption. Additionally, the PSC believes that a full retrospective transition election should be allowed as an alternative to a cumulative adjustment.

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.

Response: Since the information regarding crypto assets is already tracked internally, it should not take long to implement the proposed standard. However, consistent with other standards, we are not opposed to allowing additional time for private companies to adopt the proposed amendments. In any case, the PSC believes early adoption should be allowed.

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.

Response: The PSC believes that the proposed amendment to recognize crypto assets at fair value would not result in significant costs to implement and could potentially result in cost savings for crypto assets traded in active markets. However, as stated in our response to Question 9, the proposed requirement of requiring the disclosure of the cost basis of crypto assets for each significant crypto asset holding may be difficult and may negate potential cost savings.

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

Response: The PSC believes that the financial and disclosure requirements included in the proposed amendments are auditable. However, as expressed in question 9 and 17, the requirement to disclose cost basis information for each significant crypto asset holding may result in additional audit costs as well.

We appreciate the opportunity to submit comments on the proposed ASU on the accounting for and disclosure of crypto assets.

Sincerely,

J. Ramsey Womack III, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants