



June 1, 2023

**VIA ELECTRONIC SUBMISSION**

Ms. Hillary Salo  
Technical Director, FASB  
801 Main Avenue  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 2023-ED200, Intangibles - Goodwill and Other - Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets**

Dear Ms. Salo,

SIFMA<sup>1</sup> appreciates the opportunity to comment on the proposed Accounting Standard Update “*Intangibles - Goodwill and Other - Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*” (“proposed ASU”). In SIFMA’s response<sup>2</sup> to the invitation to comment on the Financial Accounting Standards Board’s (the “Board”) technical agenda (“2021 ITC”), we encouraged the Board to prioritize a project that would address the classification and measurement of crypto assets and, therefore, are pleased the Board subsequently elected to do so and has made significant progress in a relatively short period of time.

**I. Executive Summary**

SIFMA agrees with the Board’s proposal that the crypto assets described in the proposed ASU should be measured at fair value with changes recognized in net income. Under the current framework, absent the application of industry-specific guidance, an entity is only permitted to mark the carrying value of these types of crypto assets below their initial cost, with no ability to mark up, including for previously recorded losses. As a result, the volatility and full range of

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<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

<sup>2</sup> See generally *SIFMA Comment Letter to FASB on Invitation to Comment on Technical Agenda* (Sept. 21, 2021), <https://www.sifma.org/resources/submissions/invitation-to-comment-fasb-agenda-consultation/>.

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crypto asset price movements is not being captured directly in the financial statements, and entities may be carrying such assets at amounts significantly below the levels at which they could be readily converted to cash. SIFMA, therefore, believes fair value measurement is more appropriate and transparent to users of the financial statements.

Although SIFMA is broadly supportive of the proposed ASU, below are responses to certain questions included therein as well as thoughts on a topic on the Board’s research agenda.

## **II. Question 1: The Term “Crypto Assets” Should Not be Used in the Scoping Criteria as it May Create Confusion**

We suggest replacing “crypto assets” with “assets” in paragraph 350-60-15-1, with conforming revisions made throughout the proposal. While we understand what the Board is ultimately trying to achieve from a scoping perspective, we believe the specific language that articulates the scope criteria has the potential to create confusion. In particular, as proposed paragraph 350-60-15-1 states:

*“The guidance in this Subtopic applies to holdings of crypto assets that meet all of the following criteria...”*

As a result, it could appear that one must first determine that an asset is, in fact, a crypto asset before applying the scope criteria. However, as a formal definition would not be provided – that is, as proposed, the term “crypto assets” would not be added to the Glossary – it is unclear how this analysis would be performed, noting there is meaningful diversity in practice given the lack of a formal taxonomy. Further, the subsequent scope criteria describe certain characteristics that would seem to be fundamental to a *crypto* asset, including that such assets:

*“are created or reside on a distributed ledger based on blockchain technology”;*  
and *“are secured through cryptography”*.

We understand the need to highlight these distinctions when the starting point is *digital* assets in the broadest sense (*e.g.*, to include software and media); but as proposed, the starting point is *crypto* assets and, therefore, the wording may compound the confusion when trying to define and evaluate the latter. As a result, we believe that by removing “crypto” from the scope criteria (with conforming amendments throughout the remaining guidance) the Board can avoid the need to develop its own definition, and can instead simply highlight the targeted, narrow list of characteristics on which it has chosen to focus.

**III. Question 7: The Proposed Requirement to Present Crypto Assets Separately from Other Intangible Assets in the Balance Sheet and Income Statement is Necessary and Appropriate**

SIFMA agrees with the proposed requirement to present crypto assets in scope of the guidance separately from other intangible assets in the balance sheet and income statement. In general, we believe that the crypto assets in scope of the guidance are more closely aligned with financial instruments in certain regards, including their fungible nature and that many are actively traded and readily convertible into cash. Further, it is most likely the case that our member firms would hold crypto assets in scope of the guidance in a trading and market-making capacity. When held in such a capacity, we believe crypto assets should be presented within the firm’s “trading assets” in the balance sheet, with footnote disclosure of the amount of such crypto assets included therein, and “market making revenues” in the income statement (or equivalent captions, respectively). A requirement to present crypto assets separately from other intangibles would give member firms the flexibility to ensure the presentation is most representationally faithful to the users of the financial statements. Therefore, we support this proposed presentation requirement.

**IV. Question 12: Disclosing a Rollforward, Cost Basis, and Realized Gains and Losses Would Not Provide Meaningful Incremental Information to Users of the Financial Statements**

As discussed in more detail below, we do not believe that disclosing a rollforward, cost basis, and realized gains and losses would provide meaningful incremental information to users of the financial statements and, therefore, believe these requirements should be removed.

*a. Other disclosures would already provide sufficient information*

Absent these elements, the proposal would still require entities to provide detailed information for each significant crypto asset holding (*e.g.*, name of the crypto asset, fair value and number of units held, nature of any restrictions), which approaches the extensive disclosure requirements applicable only to entities that are considered “investment companies”. In addition, the proposal would require fair value to be determined pursuant to Topic 820 “Fair Value Measurement” and, therefore, all of the existing disclosure requirements outlined in that guidance would apply. Among other things, this would provide useful information regarding the valuation techniques and significant inputs underlying the fair value measurements. As a result, we believe that users would have sufficient detailed information to evaluate an entity’s crypto asset holdings.

*b. Certain proposed disclosures would not provide meaningful incremental information given the crypto assets holdings will be measured at fair value*

Further, from a conceptual standpoint, all changes in fair value of the applicable crypto assets would be recorded in net income regardless of whether gains or losses are realized or unrealized and, therefore, the receipt or payment of cash – or the conversion of a crypto asset from one form to another, as discussed below – would not impact net income, so we question the relevance of the information. Similarly, the historical cost basis becomes irrelevant as a crypto asset is subsequently adjusted to fair value, noting it does not inform the potential future cash flows associated with such crypto asset (*e.g.*, what amount could be generated in the future upon sale). Additionally, as discussed above, it is likely the case that our member firms would hold a significant portion of crypto assets described in the proposed ASU in a market-making capacity, which would typically involve economically hedging physical positions using derivatives, among other instruments. However, a rollforward would generally not capture this risk management activity and, therefore, it would not present a complete picture of the entity’s net exposure. Instead, we believe the aforementioned disclosures regarding significant crypto asset holdings as well as the proposed requirement to provide qualitative discussion of the entity’s crypto asset activities would allow users to assess the potential future cash flows that could be derived from current crypto asset holdings.

*c. The proposed requirements present meaningful operational challenges*

Additionally, from an operational standpoint, we observe that it would be challenging in practice to determine whether certain crypto asset activities indicate that a gain or loss is in fact realized as well as track the cost basis of a position. For example, a crypto asset may, among other things, (1) hard fork into two crypto assets, (2) be wrapped such that it can function on another blockchain and/or (3) generate rewards through staking activities – in these and similar cases where there is a change in the form of the crypto asset or a benefit derived therefrom, it is unclear whether realization has occurred, in whole or in part, as well as how the respective cost bases should be determined. Similar questions arise for financial instruments, such as the treatment of certain stock splits, conversions (*e.g.*, debt or preferred shares convert to common stock) and share dividends, and where disclosure is currently required, manual processes are necessary to capture, analyze and report the information. These resource-intensive, on-going processes are solely in place for disclosure purposes and do not support risk management or satisfy other reporting objectives.

As a result, we challenge the utility of the rollforward and the disclosure of realized gains and losses, and instead suggest retaining only the portion that would require an entity to provide a description of the nature of its crypto asset-related activities, including a general discussion of the actions that may result in additions and dispositions. Further, we believe the Board should consider expanding the significant crypto asset holdings disclosure requirements to include information

about holding concentrations<sup>3</sup> as, similar to information about contractual restrictions on sale, this information can help inform the practical ability to generate future cash flows. This would give users of the financial statements helpful information about the general timing and amounts of cash flows that may be derived from crypto assets holdings, without the significant complexity and expense underlying the proposed rollforward and the computation of realized gains and losses.

## V. **Considerations for Expanding the Fair Value Option to Certain Commodities**

In our response to the 2021 ITC, we had requested that the Board consider expanding the applicability of the fair value option (“FVO”) to certain physical commodity positions that are managed on a trading basis.<sup>4</sup> Subsequently, as part of its analysis of the feedback from the 2021 ITC, the Board had jointly explored whether fair value measurement may be appropriate for crypto assets and certain physical commodity positions and decided at the time to leave the latter on the research agenda, with the intention of revisiting it following the completion of the crypto assets project. We understood that this was driven in part by the desire to see if there was anything from the crypto asset project that could be leveraged and/or help inform a path forward for certain physical commodities. In this regard, we have the following observations:

- **No distinction or exclusion was deemed necessary for crypto assets that would be measured without quoted prices in active markets.** During the deliberations, the Board actively considered various measurement alternatives for such crypto assets, but ultimately rejected them all, primarily because Topic 820 provides “broadly applicable requirements for measuring the fair value of assets and liabilities without quoted prices in active markets” which, among other things, addresses the professional judgment necessary in such cases. We agree and believe the same logic should apply to physical commodity positions held in a trading capacity. In other words, although the project is currently identified on the Board’s research agenda as relating to “exchange-traded commodities”, we would encourage the consideration of a broader scope, for example, to include executory contracts related to physical commodities (*e.g.*, storage, transportation, non-derivative purchase, or sale contracts), as we had originally proposed. In certain cases, these contracts may, in fact, have quoted prices (*e.g.*, via broker markets or electronic bulletin boards) or, in the absence thereof, fair value is often primarily driven by actively quoted commodities prices from observable physical and financial trading activity. Regardless, similar to the conclusion reached for crypto assets, we do not believe

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<sup>3</sup> That is, disclose the percentage a given crypto asset holding is to the total amount outstanding, for example, using defined concentration “buckets” such as “less than 10%”, “between 10-50%” and “greater than 50%”.

<sup>4</sup> See *SIFMA Comment Letter to FASB on Invitation to Comment on Technical Agenda* at p.11 (Sept. 21, 2021), <https://www.sifma.org/resources/submissions/invitation-to-comment-fasb-agenda-consultation/>.

the level of pricing visibility should dictate which commodities and related contracts are in scope.

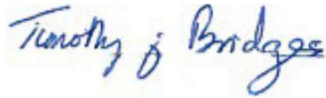
- **Given the distinct nature of certain physical commodities and commodity-related executory contracts, we believe fair value should be made available on an optional, rather than required, basis.** The Board did not support providing entities with an option to subsequently measure crypto assets at fair value because it believed this would have (a) diminished comparability between similar entities and similar assets and (b) resulted in additional effort for investors to understand an entity’s measurement policies and evaluate the entity’s financial results. While we generally understand this logic for crypto assets, we believe that physical commodities are meaningfully different, including that they generally have tangible independent functions and utilities – that is, they can be used and consumed, for example, as a raw material for refinement, manufacturing and/or production purposes. Similarly, commodity-related executory contracts provide for the transport, transmission and/or storage of physical commodities, among other things, which support the above processes. In these cases, we believe that fair value is unlikely to be the best measurement attribute given it generally does not align with the earnings process and underlying business models. Instead, we believe fair value would only be appropriate in the context of an entity’s trading activities, and we believe that distinguishing such activities would be reasonable as a practical matter – both for preparers and users – noting this currently takes place in the context of certain securities portfolios (*e.g.*, to determine if securities should be classified as “trading” or “available-for-sale”, with the Glossary already including a definition of the former). Therefore, as the Board continues to evaluate fair value for certain physical commodities and commodity-related contracts, we believe that it should continue to focus on fair value measurement as an option, not a requirement.
- **There will not be a project to consider expanding the benchmark component concept to fair value hedges of nonfinancial assets and liabilities and, therefore, applying hedge accounting to certain commodities and commodity-related contracts will continue to be complex.** As an alternative to expanding the applicability of the FVO, we had suggested certain ways to simplify the fair value hedge accounting model for non-financial assets and liabilities. We observe it is operationally challenging and burdensome to apply these concepts in practice, unless the relationship has no inherent basis risk, which is relatively uncommon (*e.g.*, hedging precious metals held at exchange-maintained warehousing facilities, which are deliverable into the futures contracts used for hedging purposes). However, at its February 1<sup>st</sup> meeting, the Board voted against exploring whether

the benchmark component concept could be expanded to non-financial assets and liabilities.<sup>5</sup> As a result, the use of hedge accounting will continue to not be a viable option from a practical perspective, which suggests the expansion of the FVO remains necessary.

## VI. Conclusion

Thank you for the opportunity to comment. Should you have any questions or require further information concerning any of the matters discussed in this letter, please do not hesitate to contact Ben Himmelberger, Chair of the Digital Assets Accounting and Disclosure Task Force, or the undersigned Timothy Bridges.

Regards,



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Chair, SIFMA Accounting Committee  
Managing Director, Goldman Sachs & Co. LLC

CC: Ben Himmelberger  
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<sup>5</sup> See *Tentative FASB Board Decisions* (Feb. 1, 2023), <https://fasb.org/Page/PageContent?pageId=/meetings/pastmeetings/02-01-23.html&bcpath=tff>.