June 6, 2023

By email: director@fasb.org

Technical Director
FASB
801 Main Avenue
P.O. Box 5116
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File Reference No. 2023-ED200, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

Dear Technical Director:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditor firm and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

In addition to providing the following overall observations, we have included detailed responses to certain of the Board's questions in the Appendix. Certain of our responses in the Appendix are intentionally duplicative for ease of reference.

General Support

The CAQ appreciates the opportunity to share our views on the Financial Accounting Standards Board's (FASB or the Board) Proposed Accounting Standards Update, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets* (the Proposed ASU or proposal). The CAQ is supportive of this Proposed ASU as an initial step to improve the accounting for crypto assets that fall within the scope of the proposal (in-scope crypto assets). We believe that the Proposed ASU is an improvement over the current model for accounting for in-scope crypto assets and that it will lead to improved financial reporting. Additionally, we commend the Board for undertaking this project, which is responsive to requests from multiple stakeholder groups to improve the accounting for and disclosure of in-scope crypto assets in the financial statements.

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Continued Standard Setting Related to Digital Assets

We recognize that the Board has been intentionally narrow in the scope of the Proposed ASU to only include characteristics of a specific group of widely used and understood crypto assets. We are supportive of the Board's approach in this regard, as we believe that the project encompasses some of the more common digital asset use cases and enables the Board to move the project forward in a timely manner and meet stakeholder needs.

However, we think it is important to acknowledge that digital assets continue to evolve and as such, new characteristics and use cases of some of these assets do not fit neatly into the framework set forth in the Proposed ASU. We encourage the Board to consider that some of these situations are already common and will likely continue to grow in the future. For example, our experience is that the use of wrapped tokens is more prevalent than the Board suggests in its Basis for Conclusions.[1] Further, token issuance, recognition, and derecognition are routine transactions not contemplated in the Proposed ASU. We encourage the Board to continue stakeholder outreach and monitoring to determine whether additional standard setting projects are needed on such topics. Further, we recommend that any future standard setting projects related to digital assets be more principles-based than the Proposed ASU. This will enable future standard setting to adapt as different types of digital assets and use cases develop.

Benefits of the Fair Value Accounting Model

We are supportive of using the fair value accounting model to subsequently measure in-scope crypto assets. We believe that fair value measurement is a better measurement method than the cost-less-impairment model that currently applies to in-scope crypto assets. The CAQ has long supported accounting for certain assets, including those within the scope of this project, at fair value and we continue to believe that fair value can provide additional decision-useful information and transparency to financial statement users. We note that academic research supports the notion that fair value accounting can be a driver of increased transparency in financial reporting. Particularly, fair value accounting may better reflect a company's economic position as of the financial reporting date. Research has found that reporting certain intangible assets at fair value reduces information asymmetry[2] and improves the information environment.[3] In addition, research has indicated that fair value information on certain intangible assets can provide more decision-useful information to the market.[4] We believe the crypto assets in the scope of the proposed ASU are consistent with the types of intangible assets studied in the referenced research and we believe measuring in-scope crypto assets at fair value will positively impact the financial reporting environment by providing better information to financial statement users.

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[1] Proposed Accounting Standards Update, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets*, paragraph BC17.

[2] Information asymmetry can occur when information in a company's financial statements does not reflect the actual financial condition of the company and therefore company management has more information than investors or other financial statement users. Information asymmetry can be reduced by high-quality financial reporting.

[3] Muller, K. A. III, Riedl, E. J., and Sellhorn, T. 2011. Mandatory fair value accounting and information asymmetry: Evidence from the European Real Estate Industry. Management Science, 57 (6), 1138-1153.

[4] Barth, M. E., and Clinch, G. 1998. Revalued financial, tangible, and intangible assets, Association with share prices and non-market-based value estimates. Journal of Accounting Research, 36, 199-233.

Auditability

We believe that high-quality independent audits contribute to high-quality financial reporting. Therefore, we appreciate the Board's consideration of the auditability of the financial reporting and disclosure requirements in the Proposed ASU. From our perspective as public company auditors, we believe that the requirements as proposed are auditable and that public company auditors have the requisite skills and experience to audit in-scope crypto assets measured at fair value and related disclosures.

Auditors have extensive experience auditing accounting estimates, including fair value measurements. Under the existing crypto asset cost-less-impairment accounting model, auditors have been required to perform audit procedures on the fair value of crypto assets throughout the period, as the fair value is necessary to evaluate crypto assets for potential impairment. Further, certain entities, such as investment companies, already report their crypto assets at fair value. Therefore, auditors have already developed the knowledge and skills necessary to audit the fair value of crypto assets. Further, much of the information in the required disclosures in the Proposed ASU, such as the cost basis of crypto assets, is also already subject to audit procedures under the existing cost-less-impairment model.

Additionally, the Public Company Accounting Oversight Board (PCAOB) has revised auditing standards on estimates[5] and the use of specialists,[6,7] further enabling the performance of high-quality audits on estimates, including fair value measurements. These standards provide the basis for performing audit procedures over fair value measurements and guide external auditors' procedures over crypto assets measured at fair value. The PCAOB recently published an interim post-implementation review of the estimates and specialists standards, which found that one-third of the audit firms in the staff's survey reported that the new estimates requirements improved auditing practices at their firm (other audit firms reported that the effects of the new standard were limited and generally asserted that their prior policies and methodologies were already largely aligned with the new requirements).[8] Some firms also indicated that the new requirements in the estimates standard prompted increased focus on the risks of material misstatement within components of accounting estimates (such as, methods, models, data, and assumptions).

Finally, the CAQ performed an analysis of PCAOB inspection reports for annually inspected firms, noting that firms deficient in "Auditing Fair Value Measurements and Disclosures" has become significantly less prevalent in recent years, declining from nine out of eleven firms with the issue in 2018 to four out of twelve firms in 2021. Further, in the PCAOB's *Staff Update and Preview of 2021 Inspection Observations*, the PCAOB observed improvements in auditing accounting estimates.[9] As such, we believe that the

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[5] *AS 2501: Auditing Accounting Estimates, Including Fair Value Measurements* was approved by the SEC in July 2019 and effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

[6] *AS 1210: Using the Work of an Auditor-Engaged Specialist* was approved by the SEC in July 2019 and effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

[7] We note that specialists are not necessarily always used when auditing the fair value of crypto assets, as many crypto assets are level 1 fair value measurements (quoted prices for identical items in active, liquid and visible markets such as stock exchanges), for which use of a specialist may not be necessary. However, for crypto assets with more complex fair value calculations, the use of specialists may be necessary.

[8] PCAOB Auditing Accounting Estimates, Including Fair Value Measurements; Auditor's Use of the Work of Specialists

[9] PCAOB Spotlight Staff Update and Preview of 2021 Inspection Observations

existing PCAOB auditing standards are fit-for-purpose and enable public company auditors to perform high-quality audits of crypto assets held at fair value.

Global Convergence

The Proposed ASU, in addition to improving US GAAP accounting and reporting for in-scope crypto assets, may be viewed as narrowing the differences between US GAAP and IFRS (although, as the Basis for Conclusions highlights, several differences exist between the Proposed ASU and current IFRS accounting standards).[10] We generally support convergence, and while this Proposed ASU does not achieve full convergence, we believe that the differences are reasonable and appropriate. For the reasons noted above, we believe the proposal to measure in-scope crypto assets at fair value is appropriate and serves stakeholder needs. We continue to encourage the FASB to collaborate with the IASB to minimize differences between domestic and international standards where possible and appropriate.

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The CAQ appreciates the opportunity to comment on the Proposed ASU, and we look forward to future engagement. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Dennis McGowan (dmcgowan@thecaq.org) or Erin Cromwell (ecromwell@thecaq.org).

Sincerely,

Dennis J McGowan

Dennis McGowan, CPA
Vice President, Professional Practice
Center for Audit Quality

cc:

SEC
Paul Munter, Chief Accountant
Diana Stoltzfus, Deputy Chief Accountant

[10] Proposed Accounting Standards Update, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets*, paragraphs BC66 – BC69.

Appendix: Responses to Specific Questions

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

We recommend that the Board consider the following updates and additional clarifications to scope criteria B, C, and F to make the criteria more understandable and operable and to inform future standard setting projects.

Criterion B

We observe that the Board has intentionally excluded "wrapped tokens" from the scope of the proposal.[11] We recommend that the Board conduct further outreach to enhance the understanding of wrapped tokens and similar instruments, how they are used, their prevalence, and current accounting treatment. As we note in the *Continued Standard Setting Related to Digital Assets* section of the cover letter above, we believe that wrapped tokens are already commonly used, and we expect their use to grow in the future. Therefore, we think that it is important for the Board to gather additional information on the topic to inform a potential future standard-setting project.

Criterion C

As technology continues to advance, there are some digital assets that reside on a distributed ledger that is based on technology other than blockchain technology, such as hashgraph technology. Such crypto assets would be excluded from the Proposed ASU based on criterion C because they are not created nor reside on blockchain technology. However, we do not believe that it is the Board's intention to exclude such assets from the scope of the proposal and therefore, we recommend that criterion C be broadened. We refer to the definition of "crypto-asset" used by the SEC in Staff Accounting Bulletin No. 121, which says "a digital asset that is issued and/or transferred using *distributed ledger or blockchain technology* [emphasis added] using cryptographic techniques."[12] We encourage the Board to consider similar phrasing in criterion C to promote the adaptability of the standard as new distributed ledger technologies that function similar to blockchain continue to develop and proliferate.

Criterion F

Criterion F excludes crypto assets created or issued by the entity or its related parties. We request that the Board consider, and potentially indicate its intent in this regard, how a creator/issuer entity would account for one of its created/issued crypto assets that it acquired on the secondary market.

[11] Proposed Accounting Standards Update, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets*, paragraph BC17.

[12] SEC Staff Accounting Bulletin No. 121

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 to subsequently measure certain crypto assets at fair value in accordance with Topic 820, Fair Value Measurement. As discussed in the section entitled *Benefits of the Fair Value Accounting Model* in the cover letter above, we believe that fair value measurement is a better measurement method than the cost-less-impairment model for in-scope crypto assets. Fair value accounting is a driver of increased transparency in financial reporting and better reflects a company's economic position as of the financial reporting date and therefore, we believe that measuring in-scope crypto assets at fair value will positively impact the financial reporting environment by providing better information to financial statement users.

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 that the Proposed ASU does not present any additional challenges or unreasonable changes to existing internal control structures. From our perspective as public company auditors, we have seen that public companies already have internal controls around determining the cost basis and fair value of crypto assets, as such information is currently used in financial reporting under the current cost-less-impairment accounting model.

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 support the Proposed ASU permitting early adoption of the standard. As we discuss in our cover letter, we believe that reporting in-scope crypto assets at fair value provides decision-useful information to financial statement users and therefore, if entities are prepared to provide that information in advance of the adoption date, they should be permitted to do so. Further, we note that auditors are prepared to audit crypto assets at fair value and related disclosures. If an entity decided to early adopt the standard, public company auditors would be prepared to audit the financial statement disclosures.

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 financial reporting and disclosure requirements included in the Proposed ASU are auditable and that public company auditors have the requisite skills to audit crypto assets at fair value and related disclosures.

   As we discuss in the section entitled *Auditability* in the cover letter above, auditors have extensive experience auditing accounting estimates and fair value measurements and, under the existing crypto asset cost-less-impairment accounting model, auditors have been required to perform auditing procedures on the fair value of crypto assets, as the fair value is necessary to evaluate crypto assets for impairments. Further, PCAOB inspection findings related to “Auditing Fair Value Measurements and Disclosures” suggest improvements in auditing accounting estimates and fair value measurements in recent years. Finally, the PCAOB has issued revised auditing standards on estimates and the use of specialists that enable public company auditors to perform high-quality audits of crypto assets held at fair value.