Accounting for and auditing of digital assets
**Digital Assets Working Group**

**Accounting Subgroup**

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**Auditing Subgroup**

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**Financial Reporting Executive Committee**

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In addition, the working group gratefully acknowledges the contributions of Matthew Sickmiller of the Center for Audit Quality; Sara Kropel, Sean Prince, Mark Shannon, and Jonathan Sharpe of Crowe LLP; Anna Gosine of Ernst & Young LLP; Dylan McDermott of Grant Thornton; and the following industry reviewers: Jeremy Dillard of Singer Lewak; Monica Blocker and Grant Casteel of Houlihan Capital; and Timothy Singh of Circle.
Notice to readers

The objective of this practice aid is to develop nonauthoritative guidance on how to account for and audit digital assets under U.S. generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS), respectively. This guidance is intended for financial statement preparers and auditors with a fundamental knowledge of blockchain technology. For the purposes of this practice aid, digital assets are defined broadly as digital records, made using cryptography for verification and security purposes, on a distributed ledger (referred to as a blockchain). The distributed ledger keeps a record of all transactions on a blockchain network. Digital assets, as defined herein, may be characterized by their ability to be used for a variety of purposes, including as a medium of exchange, as a representation to provide or access goods or services, or as a financing vehicle, such as a security, among other uses. The rights and obligations associated with digital assets vary significantly, as do the terms used to describe them. It is important to note that the accounting treatment for a digital asset will ultimately be driven by the specific terms, form, underlying rights, and obligations of the digital asset.

Digital assets and the associated underlying technology are an evolving area, and the expectations and experiences of stakeholders such as preparers, auditors, and regulators may change accordingly. Therefore, questions, examples, challenges, risks, considerations, and potential procedures listed in this practice aid should not be considered exhaustive. Preparers, auditors, and those charged with governance need to stay abreast of developments and consider the implications of those developments.

The guidance in this practice aid is based on existing professional literature and the experience of members of the Digital Assets Working Group. This nonauthoritative guidance represents the views of the Digital Assets Working Group and AICPA staff.

Accounting Content

The Financial Reporting Executive Committee (FinREC) is the designated senior committee of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting. The accounting guidance in this practice aid has been reviewed by FinREC, who did not object to its issuance.

Auditing Content

[Coming Soon]
Classification and Measurement When an Entity Purchases Crypto Assets

2 How should an entity that does not apply specialized industry guidance (for example, it is not applying FASB ASC 946, Financial Services — Investment Companies) account for purchases of crypto assets for cash?

Recognition and Initial Measurement When an Entity Receives Digital Assets that are Classified as Indefinite-Lived Intangible Assets

3 Entity A enters into a contract with a customer to deliver a good or service that is an output of its ordinary activities in a concurrent exchange for a fixed number of a digital asset that will be held in its own account and not through a custodian. At contract inception, Entity A transfers control of the good or service to the customer and concurrently receives the digital asset in return. The digital asset received is accounted for as an indefinite-lived intangible asset and the contract is within the scope of FASB ASC 606, Revenue from Contracts with Customers.

How should Entity A account for the receipt of the digital asset as consideration under a revenue contract with a customer?

4 If the facts in Q&A 2 changed and Entity A were to receive the digital asset in the future rather than concurrently with the exchange of the good or service, what additional considerations, outside of FASB ASC 606, might be necessary for Entity A?

Accounting for Digital Assets Classified as Indefinite-Lived Intangible Assets

4 How should an entity account for digital assets that are classified as indefinite-lived intangible assets subsequent to their acquisition?

4 If a digital asset is classified by an entity as an indefinite-lived intangible asset and identical digital assets are reportedly bought and sold on a market at a price below its current carrying value, is this activity an impairment indicator, and if so, should an impairment charge be recorded?

5 If the fair value of a digital asset that is classified as an indefinite-lived intangible asset has declined below the carrying value in the middle of a reporting period (that is, an impairment has occurred), does impairment need to be recorded if the fair value has recovered by the end of the same period?

5 How should an entity determine the unit of account when assessing impairment of digital asset holdings accounted for as an indefinite-lived intangible asset?

Measurement of Cost Basis of Digital Assets that are Classified as Indefinite-Lived Intangible Assets

6 When selling a portion of an entity’s digital asset holdings that are accounted for as indefinite-lived intangible assets, how should an entity determine the cost basis of the units sold?

Derecognition of Digital Asset Holdings that are Classified as Indefinite-Lived Intangible Assets

6 How should an entity account for the sale of digital asset holdings that are accounted for as indefinite-lived intangible assets?

Recognition of Digital Assets When an Entity Uses a Third-Party Hosted Wallet Service

7 When an entity (the depositor) holds its digital asset in a third-party hosted wallet service (the custodian), should the digital asset be recognized on the financial statements of the depositor or the custodian?

Auditing Subgroup

1 For auditors considering accepting or continuing audit engagements that involve digital assets, it is important for auditors to critically consider the potential risks unique to the digital asset ecosystem and skillsets necessary before concluding on whether to accept or continue an engagement.
Introduction

The AICPA formed the Digital Assets Working Group (the working group), a joint working group under the Financial Reporting Executive Committee and the Assurance Services Executive Committee, with the objective of developing nonauthoritative guidance for financial statement preparers and auditors on how to account for and audit digital assets under U.S. generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS), respectively. The working group is split into two subgroups, one focusing on accounting topics and one focusing on auditing topics. Each subgroup created a list of topics and prioritized those that it believes are the most relevant or critical for practitioners and accountants. As additional topics are completed, they will be added to this practice aid and posted to aicpa.org. The format of each of the accounting and auditing topics will vary based on the necessary context. For example, some topics will be addressed in question and answer (Q&A) format, whereas others requiring more context will be presented in a narrative format.

Help Desk: For additional information on what blockchain technology is and how it is affecting the profession, see the whitepaper “Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession”, as well as AICPA-developed CPE courses related to blockchain:
aicpa.org/interestareas/information technology/resources/blockchain.html

In addition, see the blockchain podcast series at aicpa-cima.com/disruption.

Accounting subgroup

The accounting subgroup focused on developing nonauthoritative guidance on accounting for digital assets and related transactions under GAAP. The scope of each question is defined within the question (for example, all digital assets versus digital assets that are classified as indefinite-lived intangible assets). The accounting Q&As do not address other factors such as compliance with laws and regulations.

Auditing subgroup

[Coming Soon]
Classification and Measurement When an Entity Purchases Crypto Assets

**Question 1:**

How should an entity that does not apply specialized industry guidance (for example, it is not applying FASB Accounting Standards Codification [ASC] 946, Financial Services — Investment Companies) account for purchases of crypto assets for cash?

For purposes of this Q&A, the term crypto asset is specific to the type of digital assets that

a. function as a medium of exchange and
b. have all the following characteristics:
   i. They are not issued by a jurisdictional authority (for example, a sovereign government).
   ii. They do not give rise to a contract between the holder and another party.
   iii. They are not considered a security under the Securities Act of 1933 or the Securities Exchange Act of 1934.

These characteristics are not all-inclusive, and other facts and circumstances may need to be considered.

Examples of crypto assets meeting these characteristics include bitcoin, bitcoin cash, and ether.

**Response 1:**

The FASB ASC Master Glossary defines intangible assets as assets (not including financial assets) that lack physical substance. Accordingly, crypto assets with the previously described characteristics meet the definition of intangible assets and would generally be accounted for under FASB ASC 350, Intangibles — Goodwill and Other.

These crypto assets generally would not meet the definitions of other asset classes within GAAP, and therefore, accounting for them as other than intangible assets may not be appropriate, as described in the following examples:

- Crypto assets will not meet the definition of cash or cash equivalents (as defined in the FASB ASC Master Glossary) when they are not considered legal tender and are not backed by sovereign governments. In addition, these crypto assets typically do not have a maturity date and have traditionally experienced significant price volatility.

- Crypto assets will not be financial instruments or financial assets (as defined in the FASB ASC Master Glossary) if they are not cash (see previous discussion) or an ownership interest in an entity and if they do not represent a contractual right to receive cash or another financial instrument.

- Although these crypto assets may be held for sale in the ordinary course of business, they are not tangible assets and therefore may not meet the definition of inventory (as defined in the FASB ASC Master Glossary).

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2 This question and answer (Q&A) discusses purchases of certain crypto assets that are owned and held by an entity. Refer to Q&A 10 for a discussion of ownership determination when crypto assets are held through a custodian.

3 Legal tender is specific to a jurisdiction. For example, the U.S. Code states, “United States coins and currency (including Federal reserve notes and circulating notes of Federal reserve banks and national banks) are legal tender for all debts, public charges, taxes, and dues” [Money and Finance, U.S. Code, Title 31, Section 5103, “Legal tender”]. This statute means that all forms of money identified within are a valid and legal offer of payment for debts when tendered to a creditor.
Under FASB ASC 350, an entity should determine whether an intangible asset has a finite or indefinite life. FASB ASC 350-30-35-4 states that if no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset should be considered indefinite. The term *indefinite* does not mean infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon — that is, there is no foreseeable limit on the period of time over which the asset is expected to contribute to the cash flows of the reporting entity.

Entities should consider the factors outlined in FASB ASC 350-30-35-3 when determining the useful life of an intangible asset. If there is no inherent limit imposed on the useful life of the crypto asset to the entity, then the crypto asset would be classified as an indefinite-lived intangible asset.

As intangible assets, these crypto assets purchased for cash would initially be measured at cost.

### Recognition and Initial Measurement When an Entity Receives Digital Assets that are Classified as Indefinite-Lived Intangible Assets

#### Question 2:

Entity A enters into a contract with a customer to deliver a good or service that is an output of its ordinary activities in a concurrent exchange for a fixed number of a digital asset that will be held in its own account and not through a custodian. At contract inception, Entity A transfers control of the good or service to the customer and concurrently receives the digital asset in return. The digital asset received is accounted for as an indefinite-lived intangible asset and the contract is within the scope of FASB ASC 606, *Revenue from Contracts with Customers*.

How should Entity A account for the receipt of the digital asset as consideration under a revenue contract with a customer?[^4]

#### Response 2:

Entity A would treat the receipt of the digital asset as a form of noncash consideration under FASB ASC 606 when determining the transaction price. Entities should apply all aspects of FASB ASC 606 to the transactions in the scope of that guidance (for example, recognition, measurement, presentation, and disclosure).

To determine the transaction price for the revenue contract, Entity A would measure the noncash consideration (digital asset) at its estimated fair value[^5] at contract inception — that is, the date that all the criteria in FASB ASC 606-10-25-1 are met.

As explained in FASB ASC 606-10-32-23, any changes in the fair value of the digital asset after contract inception due to the form of the consideration would not affect the transaction price for the revenue contract. The entity would apply the relevant accounting guidance for the form of noncash consideration to determine how any change in fair value of the digital asset should be recognized after contract inception. For example, an entity may need to consider the application of the subsequent measurement guidance in FASB ASC 350-30 as discussed in Q&As 4, 5, 6, and 7.

[^4]: Entities with transactions outside of FASB Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, (for example, the sale of property, plant, and equipment to a noncustomer in exchange for digital assets) should look to other relevant generally accepted accounting principles (GAAP), such as FASB ASC 610-20.

[^5]: As discussed in FASB ASC 606-10-32-22, if the fair value of the noncash consideration is not reasonably estimable, the entity should measure the noncash consideration by reference to the stand-alone selling price of the goods or services promised to the customer.
Question 3:
If the facts in Q&A 2 changed and Entity A were to receive the digital asset in the future rather than concurrently with the exchange of the good or service, what additional considerations, outside of FASB ASC 606, might be necessary for Entity A?

Response 3:
Some transactions may be more complex than the simple concurrent exchange of an entity’s good or service for a digital asset. In arrangements that involve the future receipt of a digital asset in exchange for the current delivery of a good or service, entities may need to consider the guidance in FASB ASC 815, Derivatives and Hedging, to determine whether the right to receive a digital asset in the future is a derivative or a hybrid instrument containing an embedded derivative.

Accounting for Digital Assets Classified as Indefinite – Lived Intangible Assets

Question 4:
How should an entity account for digital assets that are classified as indefinite-lived intangible assets subsequent to their acquisition?

Response 4:
An indefinite-lived intangible asset is initially carried at the value determined in accordance with FASB ASC 350-30-30-1 and is not subject to amortization. Rather, it should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. Paragraphs 18B and 18C in FASB ASC 350-30-35 provide examples of relevant facts and circumstances that should be assessed to determine if it is more likely than not that an indefinite-lived intangible asset is impaired. An impairment indicator exists and it is determined that the carrying amount of an intangible asset exceeds its fair value, an entity should recognize an impairment loss in an amount equal to that excess. After the impairment loss is recognized, the adjusted carrying amount becomes the new accounting basis of the intangible asset. Refer to paragraphs 15–20 in FASB ASC 350-30-35 for details on the subsequent accounting for intangible assets that are not subject to amortization.

Question 5:
If a digital asset is classified by an entity as an indefinite-lived intangible asset and identical digital assets are reportedly bought and sold on a market at a price below its current carrying value, is this activity an impairment indicator, and if so, should an impairment charge be recorded?

Response 5:
An intangible asset with an indefinite useful life should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that it is impaired. Paragraphs 18B and 18C of FASB ASC 350-30-35 list examples of factors an entity may consider in determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. These examples are not all-inclusive, and other facts and circumstances should be considered. Judgment may be required to identify whether an event has occurred that would result in the need to perform an impairment assessment.

When an identical digital asset is bought and sold at a price below the entity’s current carrying value, this will often serve as an indicator that impairment is more likely than not. Entities should monitor and evaluate the quality and relevance of the available information.

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Indefinite-lived intangible assets do not meet the definition of a financial asset (as defined in the FASB ASC Master Glossary) or any other eligible items under FASB ASC 825-10-15-4 and therefore are not eligible for the fair value option under that paragraph.
such as pricing information from the asset's principal (or most advantageous) market or from other digital asset exchanges or markets, to determine whether such information is indicative of a potential impairment.

If an entity determines it is more likely than not that the indefinite-lived intangible asset is impaired, the entity should determine its fair value, following the fair value framework in FASB ASC 820, *Fair Value Measurement*.

If, based on its assessment, the entity concludes that the fair value of the digital asset is less than its carrying value, an impairment loss should be recorded.

**Question 6:**
If the fair value of a digital asset that is classified as an indefinite-lived intangible asset has declined below the carrying value in the middle of a reporting period (that is, an impairment has occurred), does impairment need to be recorded if the fair value has recovered by the end of the same period?

**Response 6:**
Yes. Impairment testing of indefinite-lived intangible assets is required whenever events or changes in circumstances indicate it is more likely than not that impairment has occurred. If the entity concludes the fair value of the digital asset is less than its carrying value, an impairment loss is recorded at that time. Pursuant to FASB ASC 350-30-35-20, subsequent reversal of previously recorded impairment losses on indefinite-lived intangible assets is prohibited. This provision applies even if the fair value of the digital asset recovers above the original carrying value within the same accounting period.

**Example:** ABC Entity holds 1 million units of a digital asset, which it purchased for cash on January 1, 20X1, for $10 per unit. ABC Entity accounts for its holdings of digital asset as an indefinite-lived intangible asset. During the last week of January 20X1, units of the same digital asset were traded on an exchange at prices below ABC Entity’s carrying value. After considering the quality and relevance of the available information, ABC Entity concluded that the January trades indicated that it was more likely than not that its digital asset was impaired. ABC Entity determined that the fair value at that time was $8 per unit based on the guidance in FASB ASC 820. ABC Entity concluded that an impairment loss of $2 million had occurred as of January 31, 20X1.

As of March 31, 20X1 (the balance sheet reporting date), units of the digital asset were traded above ABC Entity’s original carrying value. Although this may be an indication that the fair value of the digital asset has increased above the original carrying value as of the reporting date, subsequent reversal of previously recognized impairment is prohibited. Accordingly, ABC Entity’s results of operations for the period should include a charge for the impairment loss of $2 million.

**Question 7:**
How should an entity determine the unit of account when assessing impairment of digital asset holdings accounted for as an indefinite-lived intangible asset?

**Response 7:**
Entities often engage in multiple acquisitions and dispositions of digital assets during a period. Entities should determine the unit of account for purposes of testing the indefinite-lived intangible asset for impairment by applying guidance in paragraphs 21–27 of FASB ASC 350-30-35. Consistent with FASB ASC 350-30-35-24, because entities usually can sell or otherwise dispose of each unit (or a divisible fraction of a unit) of a digital asset separately from any other units, entities will generally reach the determination that the individual unit (or a divisible fraction of a unit) represents the unit of account for impairment testing purposes. To perform impairment testing, entities should track the carrying values of their individual digital assets (or a divisible fraction of an individual unit).

When performing the impairment testing for an individual digital asset, the entity should compare the carrying value of that specific asset with its fair value. If an entity determines that an individual unit (or a divisible fraction of a unit) represents the unit of account for impairment testing purposes, it would not be appropriate to perform
such a comparison for a bundle of digital assets of the same type purchased at different prices. This approach could lead to an inappropriate reduction in the amount of the impairment loss by netting (1) losses on units with carrying values above the current fair value against (2) unrealized gains on units with carrying values below the current fair value.

Practically speaking, entities could perform impairment testing for batches of digital asset units (or divisible fractions of a unit) with the same acquisition date and the same carrying value.

Measurement of Cost Basis of Digital Assets that are Classified as Indefinite-Lived Intangible Assets

**Question 8:**
When selling a portion of an entity’s digital asset holdings that are accounted for as indefinite-lived intangible assets, how should an entity determine the cost basis of the units sold?

**Response 8:**
Entities should track the cost (or subsequent carrying value) of units of digital assets they obtain at different times and use this value for each unit of digital assets upon derecognition when they sell or exchange digital assets for other goods or services. Digital assets typically represent fungible units that can be subdivided into smaller fractional units. It may not be possible to identify which specific units of digital assets were sold or transferred in certain cases. For instance, it may be clear that the number of units of digital assets held has gone down (for example, from 10 units to 9 units in the entity’s wallet) but not whether the first, last, or some other unit purchased was the one sold. An entity may apply the guidance in these circumstances by developing a reasonable and rational methodology for identifying which units of digital assets were sold and apply it consistently. For example, one reasonable and rational approach could be using the first-in, first-out method.

Derecognition of Digital Asset Holdings that are Classified as Indefinite-Lived Intangible Assets

**Question 9:**
How should an entity account for the sale of digital asset holdings that are accounted for as indefinite-lived intangible assets?

**Response 9:**
An entity may transfer digital assets by exchanging them for fiat currencies (for example, digital asset X for U.S. dollars), in which case, the seller should assess whether the transaction is with a customer. If the counterparty is not a customer (that is, selling digital asset X is not part of the entity’s ongoing major or central operations), an entity should account for the sale under FASB ASC 610 and present the sale as revenue when control of the digital assets sold has transferred. If the counterparty is a customer (that is, selling digital asset X is part of the entity’s ongoing major or central operations), an entity should account for the sale under FASB ASC 606, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets, or FASB ASC 845, Nonmonetary Transactions, depending on the nature of the transfer. In those circumstances, any gain or loss upon derecognition would typically be presented net, outside of revenue (net gain or loss as determined by subtracting the cost (or subsequent carrying value) from the measured consideration).
Recognition of Digital Assets When an Entity Uses a Third-Party Hosted Wallet Service

**Question 10:**
When an entity (the depositor) holds its digital asset in a third-party hosted wallet service (the custodian), should the digital asset be recognized on the financial statements of the depositor or the custodian?

**Response 10:**
It depends. The digital asset should be recognized on the financial statements of the entity that has control over the digital asset. Determining which entity — the depositor or the custodian — has control of the digital asset should be based on the specific facts and circumstances of the agreement between the depositor and custodian and applicable laws and regulations. In that regard, a legal analysis may be needed to evaluate certain aspects of the agreement, including legal ownership.

The form of the agreement between the depositor and the custodian may vary but often will be included within the terms and conditions or initial account-opening documents provided by the custodian.

In addition to assessing the terms of the agreement, an analysis of the characteristics of an asset as defined by FASB Concepts Statement No. 6, *Elements of Financial Statements*, may help determine which party should recognize the digital asset. Some factors an entity may consider include the following:

- Are there legal or regulatory frameworks applicable to the custodian and the depositor (which may also depend on the jurisdiction)? If so, does the framework specify who the legal owner of the digital asset is?
- Do the terms of the arrangement between the depositor and custodian indicate whether the depositor will pass title, interest, or legal ownership of the digital asset to the custodian?
- When the depositor transfers its digital assets out of the custodian's wallet, is the custodian required to transfer the depositor's original units of the digital asset deposited with the custodian?
- Does the custodian have the right (under contract terms, law, or regulation) to sell, transfer, loan, encumber, or pledge the deposited digital asset for its own purposes without depositor consent or notice, or both?
- Would the digital asset deposited with the custodian be isolated from the custodian's creditors in the event of bankruptcy, liquidation, or dissolution of the custodian? If not, do the depositors have a preferential claim in such circumstances?
- Does the depositor can withdraw the deposited digital asset at any time and for any reason? If not, what contingencies are associated with the rights to receive the deposited digital asset? Are there technological or other factors that would prevent timely withdrawal notwithstanding contractual, legal, or regulatory rights?
- Are there side agreements affecting rights and obligations of the depositor and the custodian?
- Are there "off-chain" transactions recorded outside of the underlying blockchain that should be considered?
- Is the digital asset held in a multisignature wallet, and if so, what are the signatures that are required to execute a transaction? Who holds the private keys to the multisignature wallet and how is ownership evidenced through any applicable account agreements?

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7 For purposes of this Q&A, we assume that the custodian is not subject to any industry-specialized guidance.

8 Control is discussed in various parts of GAAP, such as FASB ASC 606.
• Is the custodian required (by contract, law, or regulation) to segregate the digital assets of depositors from the digital assets owned for the custodian’s own account? Does the custodian commingle digital assets of multiple depositors?

• Does the depositor bear the risk of loss if the deposited digital asset is not retrievable by the custodian (for example, due to security breach, hack, theft, or fraud)?

• Could the depositor be impeded by the custodian in any way from receiving all economic benefits of controlling the digital asset, including price appreciation?

The previous list is not exhaustive, and there is no single factor that is considered determinative to the control of the digital asset held through a custodian’s digital wallet. Each arrangement should be assessed separately.

If it is determined that the depositor has control over the digital asset, then the depositor should recognize the digital asset in its financial statements.

If it is determined that the depositor does not have control over the digital asset — that is, the custodian has control — then the depositor should recognize a right to receive the digital asset (from the custodian) as an asset in its financial statements. The custodian should recognize the digital asset as its asset and recognize a corresponding liability to return the digital asset to the depositor in its financial statements.

The right to receive the digital asset that is recognized by the depositor and the liability to return the digital asset to the depositor that is recognized by the custodian may require further assessment for accounting purposes, including subsequent measurement considerations and assessment for embedded derivatives that may require bifurcation pursuant to FASB ASC 815.