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On the Radar
Digital Assets

It has been over 16 years since Satoshi Nakamoto released *Bitcoin: A Peer-to-Peer Electronic Cash System* and breathed life into a technology and financial ecosystem that have not yet been fully defined. In January 2025, the price of bitcoin (BTC) hit an all-time high of over $100,000. In those 16 years, tens of thousands of digital assets have been created and countless innovations have driven the evolution of the digital asset ecosystem to what we see today. The decentralized ethos of this ecosystem has allowed for innovation at an unprecedented speed, since anyone with a computer can design and launch the next game-changing technology.

While digital assets have proliferated over the past 16 years, we are just beginning to see their integration with global financial services. Among other developments, the first digital asset exchange-traded products have been launched in the United States and digital assets are being used as treasury assets as well as in governance and payment applications. That said, the industry continues experimenting with the potential of decentralized finance (DeFi), the tokenization of real-world assets, and the possibilities of Web3 in an on-chain world. While it remains to be seen whether the future of the digital asset ecosystem lies in a purely decentralized, permissionless world or a centralized one, the true power of the technology may be that it can exist in both.

Accounting for the Unknown

The many different types of assets, products, and services being developed in the digital asset ecosystem make it powerful and dynamic but also increase the difficulty in defining and, hence, accounting for such transactions. One size does not fit all in the decentralized world.

Before accounting for a digital asset, product, or service, it is important to understand what it is and what it represents. For example, one should be acquainted with the commonly used terminology/lingo in the digital asset industry and what it refers to (e.g., HODL, stake, shard, mine, cryptocurrency).

Given the rapid increase in digital asset transactions, the accounting for such transactions has become a frequent topic of discussion in the boardroom, on the whiteboard, and even in the news. Below is a quick overview of some of the accounting hot topics addressed in this publication, including recent developments at the FASB and SEC.

FASB Guidance

The increased adoption of and interest in crypto assets like BTC have highlighted challenges with applying existing accounting standards to this type of asset class that did not exist when these standards were created.

The path or need for new accounting guidance was not always clear. For example, in October 2020, the FASB voted unanimously against adding a project to its technical agenda to address the accounting for digital asset holdings. In June 2021, however, the FASB issued an invitation to comment (ITC) to solicit feedback from stakeholders on what the Board's priorities should be for its next wave of technical accounting projects — and out of 524 comment letters submitted, nearly 500 respondents requested changes to the accounting for digital assets. By contrast, the Board received only 46 comment letters on its previous agenda consultation in August 2016.

So, what happened at the end of 2020 and into 2021? Well, the price of BTC soared. BTC trading volumes hit astronomical levels. Public companies began investing in BTC, with some even investing their excess cash solely in BTC. Given these developments, the general consensus was that the current accounting and disclosure model was costly and complex for companies to apply, difficult for practitioners to audit, nearly impossible for investors and financial statement users to understand, and not reflective of the economics of a company's holdings in digital assets.

Under the existing accounting guidance, certain digital assets like BTC are accounted for as indefinite-lived intangible assets — that is, they are recorded at cost and subject to impairment testing. While the cost may reflect the fair value of the BTC on day 1, an entity is required to continually monitor the fair value, or price, of BTC and mark it down to the lowest intraday trading price during the period. Subsequent recoveries or increases in price are not reflected until the BTC is sold.

In May 2022, the FASB once again unanimously voted — this time in favor of adding a project on accounting for digital assets. Several Board deliberations and one exposure draft led to the FASB's release of ASU 2023-08 in December 2023, which amends the accounting for certain digital assets and requires the subsequent measurement of certain digital assets at fair value. The resulting fair value model has helped clarify certain aspects of the accounting guidance on digital assets but has left some questions unanswered. Therefore, the new ASU has not entirely replaced the existing accounting model and the previous guidance will still need to be applied to certain assets.

There is potentially more to come from the FASB. In January 2025, the FASB released an ITC that requests feedback from stakeholders on the Board's future standard-setting agenda, including digital assets. Comments on the ITC are due by June 30, 2025.

SEC Guidance and Interpretations

The SEC has also provided its perspective on various crypto accounting matters in the form of remarks made by the SEC staff, SEC comment letters and responses that have been made public, staff accounting bulletins, and discussion at the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments. A number of crypto-related topics have been addressed by the SEC, including crypto lending, non-GAAP measures, application of the impairment guidance, and BTC mining.

Most notably, in March 2022, the SEC issued SAB 121 to help registrants account for obligations to safeguard crypto assets. Under SAB 121, an entity would have recorded a safeguarding obligation at the fair value of the crypto assets being safeguarded on behalf of others along with a corresponding safeguarding asset, factoring in any potential loss events. This represented a significant change to the current accounting practice because, before adopting SAB 121, an entity that had a safeguarding obligation would have generally only recorded an asset and liability with those activities if it had control, in the accounting sense, over the digital assets. A flurry of congressional and political activity has been associated with SAB 121 since its issuance, ultimately leading the SEC to rescind SAB 121 by releasing SAB 122 on January 23, 2025.

The SEC has also provided its views on the accounting for crypto lending transactions. For instance, the SEC has indicated that, in these situations, it would not object to a company's derecognition of the digital asset lent and recognition of a crypto asset loan receivable that is recorded initially and subsequently at the fair value of the digital assets lent and that factors in a credit allowance in a manner consistent with an allowance for current expected credit losses. Any difference in the carrying amount of the crypto asset lent and its fair value would be recorded as other income.

With more and more public registrants engaging in digital asset transactions, the SEC's Division of Corporation Finance has also provided its perspective on accounting for these transactions by issuing comment letters to such registrants. Some of these SEC comment letters and filing reviews have led to restatements.

Given the challenges in accounting for digital asset transactions, more accounting and financial reporting guidance on this topic is likely to be forthcoming. Stay tuned.

Connecting the Dots

On January 21, 2025, SEC Commissioner Mark Uyeda, who was then acting chairman of the Commission, launched the Crypto Task Force. In its press release on the development, the SEC stated that the task force's focus is to "draw clear regulatory lines, provide realistic paths to registration, craft sensible disclosure frameworks, and deploy enforcement resources judiciously." SEC Commissioner Hester Peirce, who leads the task force, released a statement on February 21, 2025, to solicit feedback from the public on challenges associated with digital asset and blockchain innovation. In addition, the discussion at various Crypto Task Force roundtables has indicated that more on this topic is to come, including defining security status, tokenization, custody, and regulations for crypto asset trading.

For a comprehensive discussion of the emerging issues and trends related to the accounting and financial reporting for digital assets, see Deloitte's Roadmap *Digital Assets*.

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