

To the Point

SEC – Staff Accounting Bulletin

SEC staff rescinds guidance on obligations to safeguard crypto assets under SAB 121

SAB 122 clarifies that existing accounting guidance will apply when an entity is obligated to safeguard crypto assets for others.

What you need to know

- ▶ The SEC staff rescinded its interpretive guidance under SAB 121, which stated that an entity that is obligated to safeguard a platform user's crypto assets should present a liability and a related asset measured at the fair value of the user's crypto assets.
- ▶ The staff said in SAB 122 that entities should determine, upon the rescission of the guidance, whether to recognize a liability related to the risk of loss under the arrangement by applying the recognition and measurement guidance for liabilities arising from contingencies in ASC 450 and IAS 37.
- ▶ SAB 122 is effective upon publication in the Federal Register and will apply to entities on a fully retrospective basis in annual periods beginning after 15 December 2024. The changes can be applied in any earlier interim or annual period included in filings after the effective date.

Overview

The Securities and Exchange Commission (SEC or Commission) issued **Staff Accounting Bulletin (SAB) No. 122** to rescind the interpretive guidance in **SAB 121** regarding the accounting for obligations to safeguard crypto assets¹ that an entity holds for platform users.

The staff previously issued SAB 121 to address the risks and uncertainties associated with the increase in the number of entities that offer platform users the ability to transact in crypto assets, often providing services that obligate them or their agents to safeguard users' crypto assets.

SAB 121 stated that an entity that is obligated to safeguard a platform user's crypto assets should present a liability and a related asset measured at the fair value of the user's crypto assets. It also stated that an entity should include several disclosures in the notes to the financial statements, such as the nature and amount of crypto assets the entity holds for its users, including a separate disclosure for each significant crypto asset, and vulnerabilities that may arise as a result of any concentration in crypto assets.

Key considerations

Recognition and measurement

The interpretive guidance in SAB 122 clarifies that an entity that has an obligation to safeguard crypto assets for others should determine whether to recognize, and how to measure, a liability related to the risk of loss under such an obligation by applying the recognition and measurement requirements for liabilities arising from contingencies in Accounting Standards Codification (ASC) 450-20, *Loss Contingencies*, under US GAAP, or International Accounting Standard (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*, under IFRS Accounting Standards.

Disclosure

SAB 122 states entities should continue to consider existing requirements to provide disclosures that allow investors to understand an entity's obligation to safeguard crypto assets held for others.

For example, certain disclosures may be required outside of the financial statements under existing SEC rules, including the description of a business, risk factors, or management's discussion and analysis of financial condition and results of operations.² Entities should also consider disclosures under ASC 450-20 and ASC 275, *Risks and Uncertainties*.³

Transition

Entities are required to apply SAB 122 using a full retrospective transition approach for annual periods beginning after 15 December 2024. Early application is allowed in any interim or annual period included in filings with the SEC after the effective date (i.e., the date when SAB 122 is published in the Federal Register).

Entities should provide clear disclosure of the effects of the change in accounting principle upon their initial application of SAB 122.⁴

How we see it

The transition guidance provided by SAB 122 will allow, but not require, calendar year-end entities to early adopt the guidance in their 2024 annual financial statements filed with the SEC after the effective date.

Entities considering early adoption should carefully evaluate the time and effort required to retrospectively adjust all prior periods presented since full retrospective application is required. Entities should also carefully evaluate existing disclosure requirements highlighted by the SEC staff to allow investors to understand the extent of an entity's involvement in the safeguarding of crypto assets.

Endnotes:

- ¹ For purposes of SAB 121, the staff defined the term "crypto asset" to include a digital asset that is issued and/or transferred on a distributed ledger or blockchain using cryptography.
- ² Items 101, 105 and 303 of Regulation S-K.
- ³ Entities should refer to the disclosure guidance in ASC 275 or in IAS 1.
- ⁴ Entities should refer to the disclosure guidance in ASC 250, *Accounting Changes and Error Corrections*, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Refer also to Item 302 of Regulation S-X and Public Company Accounting Oversight Board Auditing Standard 2820.8.

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