

CHECKPOINT LEARNING

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Topics for future editions may include:

- FASB update on segment reporting
- IT risk as part of audit risk assessment
- Communicating internal control deficiencies

EXECUTIVE SUMMARY

PART 1. ACCOUNTING

FASB Update Crypto and Income Tax..... 3

Russ Madray, CPA reviews recent guidance on accounting for cryptocurrency, digital assets, and accounting for income tax disclosures. [*Running time: 35:53*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Determine what disclosures need to be made for in-scope crypto assets and how to account for them
- Identify when ASU 2023-08 become effective
- Identify what needs to be disclosed in the rate reconciliation disclosure for PBEs
- Determine the effective date for the disclosures required in ASU 2023-09

PART 2. AUDITING

Auditing Digital Assets and Crypto 20

Jennifer Louis, CPA reviews recent guidance on digital assets and key audit points for practitioners. [*Running time: 31:06*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Define the characteristics of digital assets
- Determine the accounting at initial recognition for digital assets under the AICPA’s practice aid
- Identify which digital assets need to be measured at fair value
- Determine the disclosure requirements for significant crypto holdings under ASU 2023-08
- Identify key internal controls when a third party custodian or exchange is used for digital assets

PART 3. SMALL BUSINESS

PCC Plain Vanilla Swaps 39

Kurt Oestrieher, CPA, discusses the election for plain vanilla swaps, how it assists nonpublic entities, and how to record them. [*Running time: 31:16*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Define the primary purpose of the Private Company Council
- Identify the characteristics of a plain vanilla interest rate swap
- Identify the relief provided for plain vanilla interest rate swaps by the PCC guidance
- Identify the primary risks to the borrower in an interest rate swap if a counterparty fails
- Determine materiality considerations in an interest rate swap

ABOUT THE SPEAKERS

Russ Madray, CPA, CGFM, has more than 30 years of professional experience, including stints at two Big 4 accounting firms. Russ is a nationally-known accounting and auditing thought leader, writer, and advisor helping CPAs throughout the country understand and implement technical accounting and auditing issues.

Jennifer Louis, CPA, is a CPA and president of Emergent Solutions Group, LLC. She has more than 25 years experience in designing and instructing high-quality training programs. Ms. Louis was previously executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession. She also served as financial/operational audit manager for the AARP, and as an audit manager for Deloitte.

Kurt Oestrieher, CPA, is a CPA and partner with the accounting firm of Oestrieher and Company in Alexandria, Louisiana. He is in charge of accounting and auditing services, and is also involved in litigation support and small business consulting engagements. In addition to his client responsibilities, Kurt has served as a discussion leader for numerous accounting and auditing courses. He has served on the AICPA Accounting and Review Services Committee and is currently serving a three-year term on the AICPA Council.

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PART 1. ACCOUNTING

FASB Update Crypto and Income Tax

In late 2023, the FASB issued two new ASUs—one on accounting for and disclosure of crypto assets, and the other on improving income tax disclosures.

Prior to this new guidance, crypto assets were accounted for as indefinite lived intangible assets. The new guidance is expected to reduce complexity and cost of accounting for the assets, as well as better reflect the economics of the situation by reporting the assets at fair value.

The second ASU released in December addressed income tax disclosures. ASC 740 is complex, and the new standard is expected to provide investors with more detailed information that is useful in making capital allocation decisions. The guidance applies to all entities subject to income tax.

For more on this new guidance from the FASB, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk about some recent activity at the FASB. They really, I don't know why they pick like the holidays to get really busy, but that's when they start issuing standards for some reason. There are two ASUs in particular that I would like to talk about today. The first one, which let's just say some feel has been a long time coming, relates to the accounting for disclosure of crypto assets and that's ASU 2023-08. Could you give us an overview of what this ASU is about?

Mr. Madray

Sure, this was issued in December of 2023, and it obviously addresses the accounting and disclosure requirements for certain crypto assets. And again, it has been a long time coming, and a lot of folks will say it's still not enough, because it's a very narrowly defined application. But, essentially, it requires entities to subsequently measure certain crypto assets at fair value with the changes in fair value recorded in net income in each reporting period. Beyond that, entities will be required to provide some additional disclosures about the holdings of certain crypto assets.

Before this ASU was issued, entities, there was some narrow guidance for entities that investment companies and certain broker dealers as exceptions, but generally before this ASU entities would account for crypto assets as indefinite lived intangible assets under Topic 350. In other words, the assets were measured at historical cost less impairment. There's been discussion of this and concerns about this for several years. Things like that, using that intangible asset model didn't faithfully represent the economics of crypto assets. It made recognition of impairments needlessly complex by requiring entities to use a crypto asset's lowest observable fair value within a reporting period. So in response, the FASB anticipates that this is going to better reflect the economics of certain crypto assets that are held by entities as well as reduce that complexity of complying with that impairment model that was being used under Topic 350. But again, it is somewhat narrow in terms of what it will apply to and we'll get to that shortly. But that's the gist of it. It's replacing what was an... impairment-based intangible asset model with something that better reflects the economics of these types of assets.

Ms. Grove Casey

Let's talk about what the main provisions of this new guidance are, because there's an awful lot of volatility related to those crypto assets. So I can see why people are saying, we could use a different model; it would be good with us.

Mr. Madray

Sure, and key thing is this guidance will apply to all entities that hold certain crypto assets. We keep saying certain because there's a, again, we'll look at the specifics in a moment. But this will include private companies and also includes not-for-profit entities. Now, as is provided by this ASU, the scope criteria we have on the next slide. So the crypto asset needs to meet the US GAAP definition of an intangible asset.

The holder does not have enforceable rights to or claims on underlying goods, services, or other assets. The asset is created or resides on a distributed ledger based on a blockchain or some similar technology. The asset is secured by cryptography. The asset is fungible, and the asset is not created or issued by the reporting entity itself or its related parties.

Now, side note here, while this new guidance applies to assets that meet the scope criteria that's set forth on the slide, not all digital assets will meet these criteria, as I said earlier. Because this new guidance only applies to fungible digital assets that meet the definition of an intangible asset there are going to be questions remaining about how entities would account for and disclose other types of digital assets such as non-fungible tokens or NFTs. In addition, something called a *wrapped token* is generally outside the scope of this guidance. A wrapped token is a tokenized representation of another crypto asset that has additional features that are not contained in the original version, such as the ability to transact on a different blockchain, such as a wrapped bitcoin that can be transacted on the Ethereum blockchain. The FASB found that tokens of this nature might provide their holders with a right or claim on another asset, like the underlying wrapped crypto asset.

Because crypto assets can be wrapped in different ways, the FASB was concerned that expanding the scope to include these kinds of things would have unforeseen consequences. So as a result, an entity might need to use the traditional intangible asset model or some other accounting model to account for things such as wrapped tokens, even if the underlying crypto asset might be within the scope of this new ASU.

I mentioned also that this ASU would not apply to assets that the reporting entity or its related party has issued or created, even if those entities obtain the assets from an unrelated third party. So in that case, the entity would be required to apply the traditional intangible asset model to these assets, even if they were otherwise within the scope of the guidance in this new ASU. Now, in terms of measurement, the amendments require entities to subsequently measure crypto assets at fair value with changes included in net income in each reporting period. FASB notes that entities would need to look at the existing guidance in Topic 820 on fair value measurement for purposes of evaluating and determining the fair value of these assets specifically. In the background information and basis for conclusions in this ASU, the FASB indicated that there's already guidance on determining the principal or most advantageous market, in the hierarchy measuring fair value with the volume of transactions has decreased and also determining fair value and transactions affected by related parties. So as it does when assessing other assets measured at fair value, an entity would need to use judgment, obviously in evaluating the factors related to determining the fair value of these crypto assets. The new ASU doesn't provide guidance on how to recognize or present transaction costs these crypto assets like commissions and other types of transaction fees. But the FASB did note that regardless of whether the entity capitalizes or expenses these transaction costs, the effect on comprehensive income would not change since the crypto assets are subsequently going to be measured at fair value.

Now, interestingly, the ASU addresses subsequent measurement, but not initial measurement of crypto assets. So we would expect entities would continue to apply the guidance in Topic 350 when initially measuring intangibles other than goodwill.

So there could be situations where an entity acquires and initially measures a crypto asset at an amount that differs from its actual fair value at the time of initial recognition. Because the entity is required to subsequently measure the crypto asset at fair value, it may have to recognize a change in the asset's measurement from its initial measurement, even though the asset's fair value hasn't changed since that date, because it would have been recorded at the acquisition cost at that time.

There's also some presentation guidance in here. We have some of this on the next slide. So entities with crypto assets subject to this new guidance requires presentation on the balance sheet of the aggregate amount of crypto assets measured at fair value, separately from other intangible assets that are not measured at fair value.

Also required to include in net income changes in the fair value of the crypto assets separately from changes in the carrying amount. So for example, impairments, amortization, and so on, other intangible assets, including other digital assets that are not measured at fair value, like those wrapped tokens and so on, to classify as cash flows from operating

activities, those cash receipts from the nearly immediate sale of crypto assets that were received as non cash consideration in the ordinary course of business. So for example, in exchange for goods and services that are transferred to a customer.

Now, the ASU does not stipulate whether the fair value changes need to be presented as operating or non-operating income, but in the basis for conclusions, it does indicate that the correct presentation would be based on the facts and circumstances. So if the entity presents operating income, the determination of whether fair value changes should be presented as operating or non-operating would be based on things like how the entity is using the crypto asset. For example, is it trading or holding for investment purposes? And also whether the crypto assets are a core part of the entity's business. So in the...

The gist of it is with this new guidance, we do have guidance on subsequent measurement. We have guidance on presentation. And again, we have the actual criteria for which it would apply. But as I said, it still leaves some out there that we don't really have a good model for, and maybe that will come in the future. But at that point, that's what this ASU does for us.

Ms. Grove Casey

Well, I assume there are specific disclosures required. Could you talk about what those requirements are?

Mr. Madray

Sure. Like other assets that are measured at fair value, the crypto assets would be subject to those disclosure requirements in Topic 820 on fair value measurement. Beyond that, this ASU would require entities to provide some additional disclosures about crypto asset holdings for both annual and interim periods. So specifically, we got these on the next slide.

For annual and interim periods, the name, the cost basis, the fair value, the number of units of each significant crypto asset holding. Entities will also need to disclose the aggregate cost basis and fair value of the crypto assets that are determined not to be individually significant.

For annual periods, the method that the entity used to determine the cost basis of those crypto assets that are disposed of when calculating gains and losses, as well as the income statement line item where those gains and losses are included if they're not presented separately.

There also needs to be an annual reconciliation of the aggregate crypto asset holdings from the opening to the closing balance that would address things like additions and also discussing the nature of the activities resulting in those additions. Dispositions, including the total amount of the cumulative recognized gains and losses from dispositions during the period, as well as gains and losses that are included in net income for that respective period. Assets with net gains, or net losses within the period would need to be presented in the applicable line of the reconciliation. So, for example, a crypto asset with transactions resulting in both gains and losses during the period, with the results of a net gain overall would be presented within net gains in that particular period.

And then finally, for crypto assets that are subject to contractual sale restrictions on the balance sheet date, entities would need to disclose the fair value of those assets, the nature and remaining duration of the restrictions, and any circumstances where those restrictions could lapse. So lots of additional disclosure requirements for these types of assets.

Ms. Grove Casey

Let's talk about when it's going to become effective, because typically this is an area of technology that is rapidly changing. And they may have to, even if they implement it now, we may be looking at more guidance here shortly.

Mr. Madray

That is true. And this particular ASU will be effective for all entities, public, private, not for profit, and so on for fiscal years that begin after December 15, 2024. It does include interim periods in those years after that point. Early adoption of this is permitted.

So where an entity does early adopt the amendments, they would be required to apply the entire ASU, including the presentation and disclosure provisions and not just that new measurement guidance. An entity that adopts the amendments in an interim period, would also need to adopt them as the beginning of the fiscal year that includes that interim period.

Now, when adopting the ASU, entities are required to record a cumulative effect adjustment to retained earnings or to other appropriate component of equity or net assets depending on the entity as of the beginning of the annual period of adoption. Retrospective restatement would not be required nor is it allowed for prior periods prior to that year of adoption.

Ms. Grove Casey

Well, there's another standard that the FASB, for whatever reason, seemed to find the need to issue guidance about this topic at the end of the year. That's related to, again, improvements to income tax disclosures. We've been improving those disclosures for quite a while now. But I'm interested to hear what this latest version is. So, ASU 2023-09 relates to income tax disclosures. Could you give us an overview of this new guidance?

Mr. Madray

Sure, this was also issued in December of 2023 and essentially requires some disaggregated information about the reporting entities' effective tax rate reconciliation as well as some information on income taxes paid.

It's intended to provide more detailed income tax disclosures that will be useful for financial statement users and that users have been asking for some time. It will apply to all entities that are subject to income taxes.

As you said, this has been in the works for some time. In fact, the FASB's technical agenda has included a project to improve income tax disclosure since 2015. So it only took eight years. They did perform some research. They got feedback from investors that the existing income tax disclosure requirements, which really haven't changed much in more than 15 years, don't provide enough detail to assess global tax risk.

As I said, investors have been asking for more disaggregated income tax information, particularly broken down by tax jurisdiction. And again, although this project has been going on for eight years, there's been several exposure drafts, disaggregation has always been a main focal point of these improvements.

So in the end, this new guidance focuses on two specific disclosure areas, the rate reconciliation and income taxes paid. Now, the rate reconciliation disclosure requirements will be different for public business entities compared to non-public business entities, but the income taxes paid disclosures will be the same for all entities. So those are your two main areas that are addressed in this new guidance.

Ms. Grove Casey

Well, let's start with the rate reconciliation as you mentioned. So what's new on that issue?

Mr. Madray

Sure, prior to the adoption of this ASU, the guidance in Topic 740 on income taxes already requires public entities to provide a tabular rate reconciliation that reconciles the income tax expense attributable to continuing operations to the statutory federal income tax rate applied to the pre-tax income from continuing operations. The reconciliation is required to include the nature and the estimated amount of each significant reconciling item.

Public companies can present this tabular reconciliation using either dollar amounts or percentages. Although Topic 740 doesn't define significant with regard to the rate reconciliation, there is an SEC regulation that requires disclosure of individual reconciling items that are more than 5% of the amount computed by multiplying pre-tax income by the statutory tax rate. So for example, a US-based entity subject to the 21% statutory rate, any item that increases or

decreases the tax rate by 1.05% or more using that SEC reg would meet the definition of... significant. This ASU does replace the term public entity with public business entity because that's the term that's used now, and ultimately, requires public business entities on an annual basis to provide a tabular rate reconciliation using both percentages and reporting currency amounts of the reported income tax expense from continuing operations to the product of the income from continuing operations before income taxes and the applicable statutory federal income tax rate of the jurisdiction of domicile using some specific categories. Also required separate disclosure for any reconciling items within certain categories that are equal to or greater than a specified quantitative threshold.

The quantitative threshold for the designated categories that requires further disaggregation is 5%. So that is if the absolute value of the effect of the reconciling item is equal to or greater than the absolute value of 5% of the product of the income or loss from continuing operations before income tax and the applicable statutory federal income tax rate, then that reconciling item needs to be separately disclosed.

And obviously, the FASB chose that 5% threshold to be consistent with that SEC regulatory requirement. Now, when a public business entity as the parent entity is not domiciled in the U.S., then consistent with SEC requirements, this new ASU requires that the federal or national income tax rate in that entity's country of domicile would normally be used in the reconciliation. Beyond that, any reporting entity that doesn't use the U.S. federal rate would need to disclose the rate that's used and the basis for using that particular rate. The ASU does require the use of eight specific categories within that tabular rate reconciliation.

The FASB believes that the standardization of these categories within the rate reconciliation will help users better understand factors that affect the entity's tax rate and assess whether a tax rate is in fact sustainable. So for each annual reporting period, a public business entity would need to disclose this tabular reconciliation using both percentages and reporting currency amounts based on the requirements that we see on this next slide.

Mr. Madray

So the following specific categories would need to be disclosed: (1) the state and local income tax net of the federal income tax effect; (2) the foreign tax effects; (3) the effect of changes in tax laws or rates that are enacted in the current period; (4) the effect of cross-border tax laws; (5) tax credits; (6) changes in valuation allowances; (7) non-taxable or non-deductible items; and finally, (8) changes in unrecognized tax benefits. So this ASU is written with the expectation that the starting point for the reconciliation would be the federal statutory rate in the reporting entity's jurisdiction, or country of domicile. So as a result of all of the categories, except for the changes in the unrecognized tax benefits category, would be considered through that lens. So for example, the state and local income tax category would include income taxes imposed by state and local jurisdictions in the country of domicile. The foreign tax effects category would include all income taxes imposed by jurisdictions outside that country of domicile. And then all the other categories would only include federal or national income tax impacts imposed by that country of domicile. So for example, the cross-border tax effect category would only include cross-border taxes that are imposed by the jurisdiction or country of domicile.

In the same way, the valuation allowance category would only reflect the change in valuation allowance related to the national taxes in the country of domicile. So any change in valuation allowance in a foreign jurisdiction would be included in the foreign tax effects category and would be separately disclosed as a reconciling item if the impact meets that quantitative threshold.

Now, the changes in unrecognized tax benefits category could include reconciling items for all jurisdictions on an aggregate basis. Some reconciling items that are interrelated or interdependent and have an offsetting effect on each other would fall into that type of category. But the ASU does require a gross presentation of all reconciling items unless specific guidance permits some type of net presentation. So if a reconciling item doesn't fall into a specific category, the entity would be required to disclose the reconciling item separately as an other adjustment in that tabular reconciliation if it meets that 5% threshold. So quite a bit to take in there in terms of these new requirements for disclosure and as it affects that rate reconciliation.

Now one final thing about the rate reconciliation, because it is different for public business entities versus entities that are not public business entities. Prior to this ASU, Topic 740 required non-public entities to disclose the nature of significant reconciling items, but didn't require a numerical reconciliation. The only change they made here, so don't... be afraid. They replaced the term non-public entity with the phrase entities other than public business entities.

The ASU does require non-public business entities to qualitatively disclose the nature and effect of the specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. But just like existing guidance, the numerical reconciliation is not required for non-public business entities.

So there is some additional qualitative disclosure requirement, but again, still no requirement for that numerical tabular reconciliation like the public business entities have now and has been expanded, as I just mentioned.

Ms. Grove Casey

Well, we are going to talk about the disclosure for income taxes paid. And I want to ask you about that. But sometimes with the implementation of these standards, we're not capturing information in order to disclose it, so it actually becomes a real struggle for entities to be disclosing the information. This sounds like it's information they maybe already have and just have been aggregating it before making a disclosure or just making a qualitative disclosure and not a numerical. Is that the case or did you want to address that later?

Mr. Madray

I think you're right that the majority of this is already being captured and is used for other purposes, including tax compliance and so on. That the real difference is...disclosing it in the financial statements in this disaggregated fashion is going to be something new, a new exercise, definitely.

Ms. Grove Casey

So let's talk about the disclosure for the income taxes paid because that number is kind of, well, visible in some places already. But the disclosure obviously is somewhat new. So let's talk about that change.

Mr. Madray

Yes, well, prior to this ASU, your requirement related to income taxes paid was found in Topic 230 on the statement of cash flows that required...reporting entities to disclose the total amount of income taxes paid during the period. What this ASU changes there is for every annual period, now all reporting entities will need to disclose the year to date amount of income taxes paid, net of any refunds, again, disaggregated by federal, state, and foreign taxes. It's also going to require disaggregated information on income taxes paid to an individual jurisdiction if it's equal to or greater than 5% of the total income taxes paid.

And again, an entity may identify a country, a state, or local territory as an individual jurisdiction in this case. The amount of income taxes paid that's required to be disclosed as the net amount paid or net refund received in the period computed as the total income taxes paid net of cash refunds received.

When determining the jurisdictions for separate disclosure, an entity would need to apply, again, that 5% quantitative threshold by comparing the absolute value of the net payment in each jurisdiction with the absolute value of the total income taxes paid.

Now here, although this ASU requires disaggregation by jurisdiction for each annual period, it does not require disclosure of comparative information by jurisdiction for all years presented. So, for example, if an individual jurisdiction is over 5% for the current annual period, but didn't meet the quantitative threshold in the prior annual period, the income taxes paid for that jurisdiction in the prior period would not need to be disclosed currently.

And that same principle would apply for individual jurisdictions that meet the quantitative threshold in the prior period but fall under that threshold in the current period, only the amount related to the prior period would need to be presented in that case. Now, neither Topic 740 on income taxes nor 230 on statement of cash flows define what types of payments or refunds constitute the phrase “income taxes paid” for this disclosure requirement.

So given that lack of explicit guidance, if payments other than those made or received directly from the taxing authority for income taxes are included in that supplemental disclosure, the reporting entities may want to consider a qualitative explanation of the amounts that are included here. This ASU also does not prescribe a specific location for the income taxes paid disclosures.

We typically, we're used to seeing this in the past as a supplemental note disclosure on the face of the statement of cash flows. But given this new disaggregation requirement where the income taxes paid, have to be disaggregated by jurisdiction, I think you're going to see most of this move to being disclosed in the notes along with the other income tax disclosures are required under Topic 740. Again, there's no requirement that it be in the notes or on the face of the statement of cash flows currently, but that's just typically where you saw it, but I think you may see that move just because of the volume of information that would be reported under this new disaggregation requirement.

Ms. Grove Casey

I would think for some a tabular might be the way to go there, depending on how many jurisdictions they're operating in.

Other than those two main areas, the rate reconciliation and the income taxes paid. Were there other changes to existing disclosures?

Mr. Madray

Yes, there were a few other changes. We have these on the next slide. This new ASU requires all reporting entities to disclose these items. One, the income or loss from continuing operations before income tax expense disaggregated between domestic and foreign, as well as income tax expense from continuing operations disaggregated by federal, state, and foreign jurisdictions. This aligns the guidance in Topic 740 with some existing SEC guidance in Regulation S-X.

The ASU also removes some existing disclosure requirements that are listed here, including the nature and estimate of the range of reasonably possible increases or decreases in the unrecognized tax benefit balance, or to make a statement that an estimate of the range cannot be made. So that's been eliminated. The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to undistributed earnings of subsidiaries and corporate joint ventures. That's been eliminated, but entities will need to continue to disclose these items, a description of the types of temporary differences for which deferred tax liabilities have not been recognized and the types of events that would cause those temporary differences to become taxable, as well as the amount of the unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of those liabilities is practical or a statement that determination is not practical under Topic 740. So a few changes to existing disclosure requirements along with some that have been eliminated. But again, the bulk of this was focusing on that rate reconciliation and income taxes paid.

Ms. Grove Casey

When do we think they will become effective?

Mr. Madray

This new guidance for public business entities will be effective for annual periods that begin after December 15th of 2024. For non-public business entities, it's going to be effective one year later, annual periods that begin after December 15, 2025. It's all applied prospectively, although there is an option to apply it retrospectively, and early adoption is permitted. If you like all of this and you want to get started sooner rather than later, you certainly can do that.

SUPPLEMENTAL MATERIALS

FASB Update

by J. Russell Madray, CPA, CIA, CMA, CFM

ASU 2023-08, *Accounting for and Disclosure of Crypto Assets*

Overview

In December 2023, the FASB issued ASU 2023-08, *Accounting for and Disclosure of Crypto Assets*, which addresses the accounting and disclosure requirements for certain crypto assets. The new guidance requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recorded in net income in each reporting period. In addition, entities are required to provide additional disclosures about the holdings of certain crypto assets. Before ASU 2023-08, entities (other than those within the scope of the investment-company guidance in ASC 946, *Financial Services—Investment Companies*, or certain types of broker-dealers) accounted for crypto assets as indefinite-lived intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*, (i.e., the assets were measured at historical cost less impairment). Stakeholders had raised concerns that, among other factors, this intangible asset model (1) did not faithfully represent the economics of crypto assets and (2) made the recognition of impairments needlessly complex by requiring entities to use a crypto asset’s lowest observable fair value within a reporting period. The FASB anticipates that the guidance in the ASU will better reflect the economics of certain crypto assets held by entities as well as reduce the complexity and cost of complying with a historical-cost-less-impairment model under the existing requirements in ASC 350.

Main Provisions

The ASU applies to all entities that hold certain crypto assets, including private companies and not-for-profit entities. As outlined in ASC 350-60-15-1 (added by the ASU), these scope criteria are as follows:

- The crypto asset meets the U.S. GAAP definition of an intangible asset.
- The holder does not have enforceable rights to or claims on underlying goods, services, or other assets.
- The asset is created or resides on a distributed ledger based on blockchain or similar technology.
- The asset is secured by cryptography.
- The asset is fungible.
- The asset is not created or issued by the reporting entity or its related parties.

Observation: While the new guidance applies to assets that meet the scope criteria in ASC 350-60, not all digital assets will meet these criteria. Because the guidance only applies to “fungible” digital assets that meet the definition of an intangible asset, questions will remain about how entities should account for and disclose other types of digital assets, such as nonfungible tokens (NFTs). In addition, wrapped tokens are generally outside the scope of the guidance. Wrapped tokens are tokenized representations of another crypto asset that have additional features not contained in the original version, such as the ability to transact on a different blockchain, such as a wrapped bitcoin that can be transacted on the Ethereum blockchain. The FASB observed such tokens may provide their holders with a right or a claim on another asset (i.e., the underlying wrapped crypto asset). Because crypto assets can be wrapped in different ways, the FASB was concerned that expanding the scope to include wrapped tokens could have unforeseen consequences. As a result, an entity may need to use the traditional intangible asset model or another accounting model to account for the wrapped token (depending on its nature) even if the underlying crypto asset is within the scope of the amendments.

The ASU’s amendments also do not apply to assets that the reporting entity (or its related party) has issued or created, even if those entities have obtained the assets from an unrelated third party. The entity therefore would be required to apply the traditional intangible asset model to such assets, as appropriate, even if they are otherwise within the scope of the amendments.

Measurement

The amendments require entities to subsequently measure crypto assets at fair value, with changes in fair value included in net income for each reporting period. The FASB notes that entities should look to the existing guidance in ASC 820, *Fair Value Measurement*. Specifically, the ASU's Background Information and Basis for Conclusions indicates that there is already guidance on determining the principal (or most advantageous market), determining the levels of inputs in the fair value hierarchy, measuring fair value when the volume of transactions has decreased, and determining fair value in transactions affected by related parties. As it does when assessing other assets measured at fair value, an entity should use judgment when evaluating the factors related to determining the fair value of crypto assets.

The amendments do not provide guidance on how to recognize or present transaction costs incurred to acquire crypto assets, such as commissions and other related transaction fees. The FASB notes that, regardless of whether an entity capitalizes or expenses transaction costs, the effect on comprehensive income does not change, since the crypto assets are subsequently remeasured at fair value.

The ASU addresses subsequent, but not initial, measurement of crypto assets. Entities are expected to continue to apply the guidance in ASC 350-30 when initially measuring intangibles other than goodwill, including crypto assets within the scope of ASC 350-60. Accordingly, there may be situations in which an entity acquires and initially measures a crypto asset at an amount that differs from the asset's fair value at the time of initial recognition. Because the entity is required to subsequently measure the crypto asset at fair value, it may have to recognize a change in the asset's measurement from its initial measurement even though the asset's fair value has not changed.

Presentation

ASU 2023-08 requires entities with crypto asset holdings to:

- Present on the balance sheet the aggregate amount of crypto assets measured at fair value separately from other intangible assets that are not measured at fair value.
- Include in net income changes in the fair value of crypto assets separately from changes in the carrying amount (e.g., impairments and amortization) of other intangible assets, including other digital assets that are not measured at fair value.
- Classify as cash flows from operating activities those cash receipts from the nearly immediate sale of crypto assets that were received as noncash consideration in the ordinary course of business (for example, in exchange for goods and services transferred to a customer).

Although the ASU does not stipulate whether fair value changes should be presented as operating or nonoperating income, the ASU's Background Information and Basis for Conclusions indicates that the correct presentation would be based on facts and circumstances. If an entity presents operating income, the determination of whether fair value changes should be presented as operating or nonoperating income should be based on (1) how the entity is using the crypto asset (e.g., trading vs. holding for investment purposes) and (2) whether crypto assets are a core part of the entity's business.

Disclosures

Like other assets measured at fair value, crypto assets are subject to the disclosure requirements in ASC 820. Further, the ASU's amendments require entities to provide certain additional disclosures about crypto asset holdings for annual and interim periods. Specifically, entities should disclose:

- For annual and interim periods, the name, cost basis, fair value, and number of units for each significant crypto asset holding. Entities must also disclose the aggregate cost basis and fair value of crypto assets determined not to be individually significant.

- For annual periods, the method the entity used to determine the cost basis of the crypto assets disposed of when calculating gains and losses, and the income statement line item in which gains and losses are included (if they are not presented separately).
- An annual reconciliation of aggregate crypto asset holdings, from the opening to the closing balance, that addresses (1) additions (and discusses the nature of the activities resulting in those additions), (2) dispositions (including the total amount of cumulative realized gains and losses from dispositions during the period), and (3) gains and losses included in net income for that respective period. Assets with net gains or net losses within the period should be presented in the applicable line of the reconciliation (e.g., a crypto asset with transactions resulting in both gains and losses during the period, but that results in a net gain overall, should be presented within net gains in that period).
- For crypto assets subject to contractual sale restrictions as of the balance sheet date, entities are required to disclose the (1) fair value of those assets, (2) nature and remaining duration of the restrictions, and (3) circumstances in which the restrictions could lapse.

Effective Date and Transition

The amendments are effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted. An entity that early adopts the amendments would be required to apply the entire ASU, including the presentation and disclosure provisions, not just the measurement guidance. An entity that adopts the amendments in an interim period must adopt them as of the beginning of the fiscal year that includes that interim period.

When adopting the final standard, entities are required to record a cumulative-effect adjustment to retained earnings (or other appropriate components of equity or net assets) as of the beginning of the annual period of adoption. Retrospective restatement would not be required or allowed for prior periods.

ASU 2023-09, *Improvements to Income Tax Disclosures*

Overview

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. The ASU applies to all entities subject to income taxes.

The FASB's technical agenda has included a project to improve income tax disclosures since 2015. The FASB performed research and outreach, receiving feedback from investors that the existing income tax disclosure requirements, which have remained largely unchanged for more than 15 years, do not provide sufficient detail to assess global tax risk. Specifically, investors have asked for more disaggregated income tax information, particularly jurisdictional information. Although the project has had several exposure drafts and an evolution in scope over the years, disaggregation has remained a focal point.

The new guidance focuses on two specific disclosure areas: the rate reconciliation and income taxes paid. The rate reconciliation disclosure requirements differ for public business entities (PBEs) as compared to non-PBEs. The income taxes paid disclosures are the same for all entities.

Rate Reconciliation

Prior to adoption of the ASU, ASC 740, *Income Taxes*, requires public entities, as defined, to provide a tabular rate reconciliation that reconciles (1) income tax expense attributable to continuing operations to (2) the statutory federal income tax rate applied to pre-tax income from continuing operations. The reconciliation is required to include the

nature and estimated amount of each significant reconciling item. Public entities can present the tabular reconciliation using either dollar amounts or percentages. Although ASC 740 does not define “significant” with regard to the rate reconciliation, SEC regulation S-X 4-08(h)(2) requires disclosure of individual reconciling items that are more than 5% of the amount computed by multiplying pre-tax income by the statutory tax rate (e.g., for a US-based entity subject to the 21% statutory tax rate, any item that increases or decreases the tax rate by 1.05% or more).

The ASU replaced the term “public entity” with “public business entity,” as defined in the Master Glossary. The ASU requires public business entities, on an annual basis, to provide:

- a tabular rate reconciliation (using both percentages *and* reporting currency amounts) of (1) the reported income tax expense (or benefit) from continuing operations, to (2) the product of the income (or loss) from continuing operations before income taxes and the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile using specific categories, and
- separate disclosure for any reconciling items within certain categories that are equal to or greater than a specified quantitative threshold.

The quantitative threshold for the designated categories requiring further disaggregation is 5%. That is, if the absolute value of the effect of the reconciling item is equal to or greater than the absolute value of 5% of the product of the income or loss from continuing operations before income tax and the applicable statutory federal income tax rate, the reconciling item must be separately disclosed. The FASB chose the 5% threshold to be consistent with the existing SEC requirement in Regulation S-X 4-08(h)(2).

When a PBE as the parent entity is not domiciled in the US, consistent with SEC requirements, the ASU indicates that the federal (national) income tax rate in that entity’s country of domicile should normally be used in the reconciliation. Further, any reporting entity that does not use the US federal rate should disclose the rate used and the basis for using that rate.

The ASU requires the use of eight specific categories within the tabular rate reconciliation that are prescribed in ASC 740-10-50-12A(a). Per paragraph BC18 in the Basis for Conclusions, the FASB believes that the standardization of the categories within the rate reconciliation will provide disclosure consistency and comparability that will help users of financial statements better understand the factors that affect an entity’s tax rate and assess whether an entity’s tax rate is sustainable.

For each annual reporting period, a public business entity should disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

- a. The following specific categories should be disclosed:
 1. State and local income tax, net of federal (national) income tax effect
 2. Foreign tax effects
 3. Effect of changes in tax laws or rates enacted in the current period
 4. Effect of cross-border tax laws
 5. Tax credits
 6. Changes in valuation allowances
 7. Nontaxable or nondeductible items
 8. Changes in unrecognized tax benefits.

The ASU is written with the expectation that the starting point for the reconciliation is the federal statutory rate in the reporting entity's jurisdiction (country) of domicile. As a result, all of the categories (except the changes in unrecognized tax benefits category, as discussed below) are considered through that lens.

- The state and local income tax category should include income taxes imposed by state and local jurisdictions in the jurisdiction (country) of domicile.
- The foreign tax effects category should include all income taxes imposed by jurisdictions outside of the country of domicile.
- Categories 3 through 7 should only include federal (national) income tax impacts imposed by the jurisdiction (country) of domicile. For example, the cross-border tax effects category only includes cross-border taxes that are imposed by the jurisdiction (country) of domicile. Similarly, the valuation allowance category only reflects the change in valuation allowance related to federal (national) taxes in the jurisdiction (country) of domicile. Any change in valuation allowance in a foreign jurisdiction would be included in the foreign tax effects category and would be separately disclosed as a reconciling item if the impact meets the quantitative threshold.

The changes in unrecognized tax benefits category may include reconciling items for all jurisdictions on an aggregate basis. Some reconciling items are interrelated or interdependent and have an offsetting effect on each other. The ASU, however, requires gross presentation of all reconciling items unless specific guidance permits net presentation. If a reconciling item does not fall into any specific category, the entity is required to disclose the reconciling item separately as an "other adjustment" in the tabular reconciliation if it meets the 5% threshold.

State and local Income Tax

The state and local income tax category reflects income taxes imposed at the state or local level within the jurisdiction (country) of domicile. A qualitative description of the states and local jurisdictions that make up the majority (greater than 50%) of the effect of the state and local income tax category is also required. For the purpose of identifying the states and local jurisdictions that make up the majority of the effect, a PBE should begin with the state or local jurisdiction that has the largest effect and, in descending order, add states or local jurisdictions with the next largest effect until the aggregated effect is greater than 50%.

Foreign Tax Effects

The foreign tax effects category reflects income taxes imposed by foreign jurisdictions. Within the foreign tax effects category, reconciling items are required to be disaggregated by both jurisdiction (country) and by nature (including statutory rate differentials) if either or both is over the 5% threshold.

A foreign jurisdiction that meets the 5% threshold should be separately disclosed as a reconciling item. In addition, if any individual reconciling item within a foreign jurisdiction meets the 5% threshold, that reconciling item should be separately disclosed by nature and jurisdiction regardless of whether the jurisdiction exceeds the threshold in total. For example, the Basis for Conclusions indicates that a statutory tax rate difference between a foreign jurisdiction (country) and the jurisdiction (country) of domicile that meets the 5% threshold should be separately disclosed as a reconciling item within the foreign jurisdiction.

Effect of Changes in Tax Laws or Rates

This category reflects the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment. The tax effects included in this category are intended to be consistent with existing guidance in ASC 740 related to the effects of changes in tax laws or rates and the requirement for those effects, both current and deferred, to be included in the tax provision attributable to continuing operations in the period that includes the enactment date.

Effect of Cross-Border Tax Laws

The effect of cross-border tax laws category reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions. The FASB concluded that the tax effect of both the cross-border tax and any related tax credit provided by the jurisdiction (country) of domicile on the same income during the same reporting period may be presented on a net basis in the effect of cross-border tax laws category. They clarified that this effectively means that if there is a credit in the same jurisdiction, which is an inherent part of the calculation of a cross-border tax law, the credit could be netted with the cross-border tax law effect. The example used by the FASB is global intangible low-taxed income (GILTI) and its related foreign tax credits (GILTI FTCs). Reconciling items within the effect of cross-border tax laws category should be separately disclosed if over the 5% threshold.

Tax Credits

The tax credits category should reflect the effect of tax credits provided by the jurisdiction. Reconciling items within the tax credits category should be separately disclosed if over the 5% threshold. The FASB had initially included foreign tax credits as a rate reconciling item within the example provided in the Exposure Draft; however, it ultimately opted to remove “foreign tax credits” from the tax credit category in the final ASU considering their conclusions regarding netting of foreign tax credits with the related tax in certain cases (e.g., GILTI and GILTI FTCs).

Changes in Valuation Allowances

The changes in valuation allowance category reflects the income tax effect of valuation allowances initially recognized or subsequently adjusted in the reporting period. For example, a US-domiciled reporting entity that establishes a full valuation allowance on its federal deferred tax assets would present the initial impact to record the valuation allowance on both its beginning-of-year deferred tax assets and deferred tax assets generated in the current year in aggregate within the changes in valuation allowance category.

Nontaxable or Nondeductible items

This category reflects the tax effect of nontaxable or nondeductible items in the jurisdiction. Reconciling items within the nontaxable or nondeductible items category should be separately disclosed if over the 5% threshold. Reporting entities may need to apply judgment when determining what reconciling items may be included in this category. For example, excess tax benefits related to share-based payments are arguably neither “nontaxable” nor “nondeductible.” However, despite feedback received in comment letters, the FASB did not provide specific guidance on the disclosure of the rate-reconciling impact related to excess tax benefits on share-based payment awards. The FASB, however, indicated in the Basis for Conclusions that it does not believe that excess benefits and shortfalls must be viewed as separate reconciling items, and therefore, it affirmed that the impact of share-based payment awards could be viewed as a single reconciling item within the nontaxable or nondeductible items category.

Changes in Unrecognized Tax Benefits

The changes in unrecognized tax benefits category is unique in two ways. First, it only includes the tax effect of changes in judgment related to tax positions taken in *prior* annual reporting periods. Uncertain tax benefits related to *current* year tax positions will be shown net with the reconciling item that relates to the uncertain tax position. For example, if a reporting entity generates federal research and development (R&D) credits in the current period, the rate reconciling item related to the R&D credit benefit should be presented in the tax credits category net of any associated unrecognized tax benefit (assuming the R&D credit net of uncertain tax benefit meets or exceeds the 5% threshold). Second, the ASU permits reporting entities to aggregate changes in unrecognized tax benefits for all jurisdictions within the changes in unrecognized tax benefits category.

Qualitative Disclosure

A PBE is required to provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items. The FASB acknowledged in the Basis for Conclusions that the specific categories may not cover

all income tax effects and that judgment may be needed when determining how to categorize certain income tax effects that do not clearly fall into a single category or when certain income tax effects have characteristics of multiple categories. When judgment has been applied, an entity should consider whether an accompanying explanation is needed. For example, a reporting entity may disclose the categories impacted by the tax effects of a significant transaction in the current period.

Rate Reconciliation for Entities Other than PBEs

Prior to adoption of the ASU, ASC 740-10-50-13 requires nonpublic entities to disclose the nature of significant reconciling items but does not require a numerical reconciliation. In the ASU, the FASB replaced the term “nonpublic entities” with “entities other than public business entities.” In addition, the ASU requires non-PBEs to qualitatively disclose the nature and effect of the specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. Consistent with existing guidance, a numerical reconciliation is not required.

Income Taxes Paid

Prior to adoption of the ASU, ASC 230, *Statement of Cash Flows*, requires reporting entities to disclose the total amount of income taxes paid during the period. For each annual period presented, the ASU requires all reporting entities to disclose the year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign. It also requires additional disaggregated information on income taxes paid (net of refunds received) to an individual jurisdiction equal to or greater than 5% of total income taxes paid (net of refunds received). An entity may identify a country, state, or local territory as an individual jurisdiction.

The amount of income taxes paid required to be disclosed is the net amount paid or net refund received in the period, computed as total income taxes paid net of cash refunds received. When determining the jurisdictions for separate disclosure in accordance with ASC 740-10-50-23, an entity should apply the 5% quantitative threshold by comparing (1) the absolute value of the net payment or net refund *in each jurisdiction* with (2) the absolute value of total income taxes paid (net of refunds received).

Although the ASU requires disaggregation by jurisdiction for each annual period presented, it does not require disclosure of comparative information by jurisdiction for all years presented. For example, if an individual jurisdiction is over 5% for the current annual period but did not meet the quantitative threshold in the prior annual period, the income taxes paid for that jurisdiction in the prior annual period do not need to be disclosed currently. The same principle would apply for individual jurisdictions that met the quantitative threshold in the prior annual period but are under the threshold in the current annual period—only the amount related to the prior annual period needs to be presented.

Neither ASC 740 nor ASC 230 define what types of payments/refunds constitute “income taxes paid” for the supplemental disclosure requirement. Given the lack of explicit guidance, if payments other than those made or received directly from the taxing authority for income taxes are included in the supplemental disclosure, reporting entities should consider a qualitative explanation of the amounts that are included.

The ASU does not prescribe a specific location for the income taxes paid disclosures. Given the potential for the disclosure of income taxes paid disaggregated by jurisdiction to be voluminous, reporting entities may elect to include all of the supplemental disclosures of income taxes paid within the income tax note with the other income tax disclosures required under ASC 740.

Amendments to Other Disclosures

The ASU requires that all reporting entities disclose the following information:

- Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and
- Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

These requirements were codified in ASC 740 to align with existing SEC guidance in Regulation S-X 4-08(h).

The ASU removes the following existing disclosure requirements:

- The nature and estimate of the range of reasonably possible increases or decreases in the unrecognized tax benefits balance in the next 12 months, or to make a statement that an estimate of the range cannot be made (previously in ASC 740-10-50-15(d))
- The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to undistributed earnings of subsidiaries and corporate joint ventures (previously in ASC 740-30-50-2(b)). Reporting entities should continue to disclose:
 - A description of the types of temporary differences for which deferred tax liabilities have not been recognized and the types of events that would cause those temporary differences to become taxable under ASC 740-30-50-2(a), and
 - The amount of the unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of those liabilities is practicable, or a statement that determination is not practicable under ASC 740-30-50-2(c).

Effective Date and Transition

For PBEs, ASU 2023-09 is effective for annual periods beginning after December 15, 2024. For non-PBEs, the ASU is effective for annual periods beginning after December 15, 2025. The guidance should be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Describe the scope of the guidance in ASU 2023-08 as it relates to crypto assets.
2. Explain the income statement classification of changes in fair value of crypto assets provided by ASU 2023-08.
3. Discuss the changes to the rate reconciliation disclosure in ASU 2023-09 for non-PBEs.

B. Suggested Answers to Discussion Problems

1. As outlined in ASC 350-60-15-1 (added by the ASU), these scope criteria are as follows:
 - The crypto asset meets the U.S. GAAP definition of an intangible asset.
 - The holder does not have enforceable rights to or claims on underlying goods, services, or other assets.
 - The asset is created or resides on a distributed ledger based on blockchain or similar technology.
 - The asset is secured by cryptography.
 - The asset is fungible.
 - The asset is not created or issued by the reporting entity or its related parties.
2. Although the ASU does not stipulate whether fair value changes should be presented as operating or nonoperating income, the ASU's Background Information and Basis for Conclusions indicates that the correct presentation would be based on facts and circumstances. If an entity presents operating income, the determination of whether fair value changes should be presented as operating or nonoperating income should be based on (1) how the entity is using the crypto asset (e.g., trading vs. holding for investment purposes) and (2) whether crypto assets are a core part of the entity's business.
3. Prior to adoption of the ASU, ASC 740-10-50-13 requires nonpublic entities to disclose the nature of significant reconciling items but does not require a numerical reconciliation. ASU 2023-09 requires non-PBEs to qualitatively disclose the nature and effect of the specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. Consistent with existing guidance, a numerical reconciliation is not required.

PART 2. AUDITING

Auditing Digital Assets and Crypto

Broadly defined, digital assets are records that are made using cryptography for verification and security purposes, on a distributed ledger (that is, blockchain). Truly, anything that exists in a digital format and comes with a right to use. They may be a medium of exchange, a representation to provide or access goods or services, or a financing vehicle. The AICPA issued a practice aid in 2019 on accounting for and auditing digital assets. While the Faz-Bee has recently issued guidance on accounting for digital assets, auditors will still have concerns about internal controls over the assets, and valuation issues.

For more on the auditing these assets, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Cryptocurrency and digital assets have been gaining quite a bit of attention, let's say, both in the press and by investors and by financial preparers. Now the regulators, of course, have gotten into the situation too. We want to talk a little bit today about both accounting for and auditing of cryptocurrency and other digital assets. To begin with, let's talk about what are digital assets and are they the same as crypto assets because I don't think it's just cryptocurrency. There are some other things out there too.

Ms. Louis

Digital assets as a whole are, as we think about records that are made using cryptography for their verification security purposes. So such as being on a distributed ledger or a blockchain, things are in a digital format and it comes with the right to use that digital format. It can be a... medium of exchange, it can be a financing vehicle, it can be an investment. Crypto assets, as we think about those, they do tend to be more in that medium of exchange element of Bitcoin or Ether. There are certainly things that are intangible... because we talked about how they are on some sort of distributed ledger or blockchain, that they're in a digital format still.

Ms. Grove Casey

Let's talk about who the major players are in the digital asset ecosystem.

Ms. Louis

Well, it's going to be those that are holding the digital assets. They have the rights to it, those that are holding the crypto keys, but there also are wallet services, custodians, exchanges, that are out there and they may be involved in supporting the trading, the buying and the selling of these digital assets, but also just safekeeping them, Maintaining the distributed ledger or the blockchain that these things reside on. You also have validators that have to support this ecosystem by validating the blockchain. Then there's going to also be the accountants and the auditors that also need to make sure that there's proper reporting related to these digital assets.

Ms. Grove Casey

Let's talk about the guidance about how to account for and report digital assets.

Ms. Louis

Well, the AICPA, they created a non-authoritative practice aid back in December 2019. It's a living document that is just expanded by the Digital Assets Working Group to deal with emerging questions. They created this non-authoritative thing because the FASB codification didn't specifically address digital assets. Like if you did a keyword search, right? You wouldn't find anything. What they did decide is just as a best practice that digital assets would be accounted for as an intangible asset, since they lack physical substance. They are assets that lack physical substance.

Our FASB Codification did provide guidance on the initial recognition and subsequent measurement of intangible assets that could be applied by all entities, including nonprofits. And so for these cases, they just decided, well, let's go back to our concept statements and we look at what we believe the right categorization would be.

Deciding that it's not just that it's an intangible asset, but that digital assets are generally indefinite lived. There generally isn't any type of legal, regulatory, or contractual factor that would limit the useful life of the asset. I mean, so that categorization became a best practice.

Ms. Grove Casey

How are digital assets initially recognized?

Ms. Louis

Well, they're going to be initially recognized at cost, right? As far as a measurement mechanism, the entry cost that you have if you're purchasing something with cash, it could be the cash plus any related transaction costs that you have for that acquisition. Now, if I'm not exchanging cash, then you would consider FASB codification Topic 845 that deals with non-monetary transactions, where you would use either the fair value of what's being acquired or the cost based on the fair value of the consideration given, whatever is more clearly evident and more reliably measured.

Ms. Grove Casey

What if a reporting entity received payment from a contract with a customer in the form of a digital asset under ASC 606?

Ms. Louis

Well, certainly you can have that as you have these digital assets, particularly the crypto assets that are being used as a medium of exchange. And so Topic 606, as I have contracts with customers, it does address that if you have non-cash consideration, which these cryptocurrencies would be, then your transaction price is based on the fair value of that non-cash consideration. And so, if the fair value is not reasonably estimable, then you would say, well, what is the asset at the standalone selling price of the goods or services that are being promised to the customer?

So there are guidelines as we think about these non-cash transactions, as we do have these digital assets that could be used in a form of consideration as we think about the application of that topic area.

Ms. Grove Casey

With crypto assets becoming increasingly prevalent, how has the FASB responded?

Ms. Louis

In December 2023, the FASB issued guidance requiring all entities holding crypto assets that meet certain requirements, that these in scope crypto assets would be measured at fair value with the remeasurement recorded and impacting your current period net income. So breaking apart certain digital assets to say there's crypto assets with these characteristics, and we're going to treat them different than other digital assets that will still be treated as indefinite lived intangibles. So that's going to be a significant change. And there's also some additional disclosures that are going to be required as it relates to an entity's significant crypto asset holdings that would also be provided.

Ms. Grove Casey

Let's first talk about the subsequent measurement rules prior to the FASB update.

Ms. Louis

When we're looking at just following GAAP as it relates to indefinite-lived intangible assets, they are indefinite lived, so they're not amortized, but you do have to look to see, is there impairment of that asset, as you would with any

asset, including Goodwill as an indefinite-lived intangible asset? ...For the guidelines these digital assets would be at least considered annually for impairment, but then more frequently if... there are circumstances that indicate that it's more likely than not that the asset is impaired.

So if there's a triggering event and as occurred with digital assets and particularly crypto assets became more and more prevalent, you could see where there's identical digital assets that are being bought and sold at a marketplace that's less than what you paid. There's a clear indicator that it's more likely than not that the asset is impaired because there's observable activity that I can see out there. But... a triggering event can be from other conditions that we believe are occurring with changes in laws or regulations or other factors that could also be something that might cause us to go to look to see the fair value of the intangible asset because we need to compare that to the carrying value to see if there is an actual impairment loss.

Ms. Grove Casey

How would you record an impairment loss for intangible assets that are accounted for at cost less impairment?

Ms. Louis

We, first of all, need to make sure that we're tracking these intangible assets at a unit of account that would allow for me to assign impairment to it. It is important that as we think about impairment, we can't bundle digital assets of the same type if they were purchased at different prices, because they're carrying value [is different]. If we recognize it at cost I need to know, well, when is it that my fair value is less than my cost? Because remember, typically, we're not looking at amortizing it. So the carrying value is going to be its original cost, unless I've had some sort of impairment. Once you adjust the carrying amount, that becomes its new basis for that intangible asset. You're not allowed to reverse the impairment loss, even if value ultimately does rebound. Subsequent reversal of an impairment loss is not permitted in GAAP as we focus on indefinite-lived intangibles.

Ms. Grove Casey

So talk to me more about the digital assets that are now required to be subsequently measured at fair value.

Ms. Louis

So fair value is different. If I have an unrealized loss, that's different than an impairment loss. As we fair value digital assets, it's going to go up, it's going to go down, so you get the positive and the negative. Whereas with impairment losses, you only get the negative. The assets that would be measured at fair value have to be an intangible asset. It has to be something that isn't like a receivable, for example, it doesn't provide the holder of this asset with enforceable rights related to goods or services or other assets. It does need to be digital. It has to be created or residing on a distributed ledger blockchain that's secured through cryptography. So it is intangible. It is digital. But it also needs to be something that's fungible.

Fungibility would be if I gave you Bitcoin and you gave me Bitcoin, if we exchanged it, we'd end up with equal value on both our parts because it's fungible. If you had a piece of digital art, if you had a non-fungible token and I had a copy of it and we exchanged, we wouldn't be exchanging something of the same value. So the fungibility piece is that yes, it doesn't matter, if I have my Bitcoin or your Bitcoin, it's all worth the same. And there is still going to be digital assets that don't meet these criteria and would still need to be accounted for at cost less impairment. But the ones that do meet the criteria are now going to be required to be fair valued. Even if there's not an active market, you have to fair value these crypto assets.

Ms. Grove Casey

So beyond that kind of risk, [where]... there's such a thin market that it's hard to value it, what are the accounting risks associated with fair valuing digital assets?

Ms. Louis

Well, first of all, [the] digital assets marketplace or that environment is still developing, and it's still figuring out, how do we regulate it? How do we institutionalize this? But also trading on multiple exchanges can result in inconsistent pricing and not all marketplaces are designed to prohibit self-dealing. Like even if there's an observable trade, it might not be true fair value because it might be related to a self-dealing situation where somebody went out and bought their own asset, right? You have a related party or reporting entity that could be involved in a transaction to try and bump up the market price as it relates to these exchanges.

It is also that there may not be observable inputs that can drive our fair value, but yet we do need to still apply the fair value measurement principles of maybe going to level two or level three inputs as we try to hypothetically come up with a fair value determination. It may be because of the immature markets, it might be difficult to come up with my primary market. There might be unreliable information due to the lack of volume of data, and that certainly is going to increase risk.

Ms. Grove Casey

Well, you mentioned ASC 845, but fair value principles contained in ASC 820 apply to digital assets regardless, don't they?

Ms. Louis

They do. A reporting entity is expected to apply the fair value measurement principles as best they can. They do need to include those items in their fair value disclosures. Part of it is then for me to look to see, well, what's my principal market? And it may be that I work with an intermediary, I might work with a broker. That might be my principal market. But there also could just be that there's an exchange that has a greatest volume of activity and that's going to be my market. As I try to figure out where am I going to turn to get a fair market price, as I'm supposed to be putting a priority on the level one inputs. You're still required to use level one if it's available. You only go to level two or level three in the order of that hierarchy, but you still, even if there is observable information, ...consider what is a reasonable thing to use. As we think about if there's a large bid-ask spread, say, as I'm trying to figure out a price. I want to pick one that I think is fairly representative of a market participant point of view. The other factor is to ensure that we think about some of these markets are open all the time. What's a reasonable close as we look at this? It may be that we just say, okay, 5pm is the end of the business day. That's going to be my price at that point in time that I'm going to use for my pricing information.

Ms. Grove Casey

As long as they're consistent in terms of the cutoff, that's probably as, I don't want to say as good as you can get, but you've got to pick a time. You're right, they're open 24-7 anymore.

What were the general presentation and disclosure rules prior to this recent FASB update?

Ms. Louis

Most of the disclosures, they had in the period when I acquired an intangible asset, I would disclose the amount that was assigned to a major intangible asset class. And then for each period that I'm holding it, we want to know the carrying amount for each major intangible asset class.

So, if there were impairment losses, we would talk about the facts and circumstances that led to that impairment and how it is that fair value was determined. If you do segment reporting, in what segment is the impaired intangible asset reported? Where is the impairment loss included in your income statement or income statement equivalent? These things are important as they're just letting you know the existence, what's the nature of these intangible assets and giving useful information about any losses.

Ms. Grove Casey

What has changed with presentation requirements after that recent FASB update?

Ms. Louis

Since we now have these new in scope crypto assets that are going to be fair valued, they would want you to present those separately from other intangible assets on your balance sheet. So you need to think about...obviously also things like classification. It doesn't say does this crypto asset get reported in current or non-current in a classified balance sheet? The entity is going to look at its facts and circumstances, but they do want them to be separately presented. And as we're looking at this, they want any gain or loss associated with the re-measurement of the crypto asset to be reported in net income separately from the changes in the carrying amount of other intangible assets like amortization expense if I do have a finite lived intangible asset, but also any impairment losses that might be booked.

Ms. Grove Casey

What disclosures are required on an interim and annual basis for crypto assets?

Ms. Louis

Well, whenever you create your general-purpose financial statements, you're required to disclose your significant holdings of crypto assets. You also want to describe any restrictions that you have on your ability to sell those crypto assets. For these significant crypto assets, you're going to give the name of the asset, its cost basis, its fair value, and what is your holding.

You're also required to disclose on an aggregated basis the cost and fair value of holdings that are not individually significant. So you need to determine what significant means. It is what's my significant or major holdings. I will isolate those individually, and then I can aggregate everything else beyond that.

Ms. Grove Casey

What additional disclosures are required on an annual basis for the crypto assets that are covered in the new FASB update?

Ms. Louis

Well, annually, there also would be a requirement to disclose the cost basis method that you're using to calculate your gains and losses, so as you define your unit of account, as I sell something or fair value something, like as I figure out, am I using first in first out? Am I using specific identification as we have activity related to my crypto holdings? Part of it is, how are you determining that?

Then, annually to do a reconciliation of your beginning of the year to the end of the year as it relates to that reconciliation to understand the nature of the activities that result in changes in your holdings that you have. It is important to cumulatively also look at any realized gains and losses that I have from actual dispositions of my crypto assets and to let people know how much it is and on what line item are these presented.

Ms. Grove Casey

How are digital assets, in general, derecognized?

Ms. Louis

Well, that's why it's important to be able to track their cost so that I know what my realized gain or loss would be as I sell any digital asset, not just the crypto assets, but any digital asset. But also having that tracking will help me look for things like impairment issues and unrealized gains and losses. We need to look at the case that if we have a decline

in the number of holdings that I have, well, what is it that you actually disposed of, or you actually sold? So they do want you to develop a reasonable, rational methodology that can be consistently applied, like first in, first out (FIFO), or like that specific identification or some other reasonable, rational way. But it is important that we are able to track what is being exchanged or sold or derecognized.

Ms. Grove Casey

Are there any special considerations if a reporting entity uses a third-party hosted wallet service?

Ms. Louis

There is, in the fact that we need to first consider who really is controlling the underlying digital asset. So if I'm giving it to a custodian, wallet service, or if I have these on an exchange, they're safe keeping and accounting for that digital asset for me, but in that process, as I deposited my digital asset with them, depending on the facts and circumstances of the specific custodian or depositor agreement, it may be that I actually gave them control of that asset, that they can buy it or sell it or use it as collateral. Did they really take over control of the digital asset? There sometimes needs to be a legal analysis to understand what you're doing in these specific arrangements.

Ms. Grove Casey

How important are internal controls if an entity is going to engage in transactions involving crypto assets?

Ms. Louis

Well, it is important because of the fact that there's risk of these things being misappropriated. There's risk that they might not be properly valued. There may be unauthorized transactions that occur. Even if you're involving third parties, like having that custodial relationship, what's the third party's system of controls to ensure that we have adequate safeguarding and tracking and measurement of these digital assets. And so like you would need to have controls over anything like an equity security, you need to have controls over these digital assets.

Ms. Grove Casey

Let's talk about a few examples of controls that are important to ensure compliance with regulatory requirements.

Ms. Louis

Well, because of the pseudo anonymous nature of these transactions, it does open up the door for them to be most likely used for money laundering and other illegal activities. There are know your customer (KYC) rules and other regulations that could pose a risk if you are starting to get into transactions that involve these digital assets. And then, there also would be, other things where there might be transactions that really don't have economic substance that's being done to manipulate observers to believe that there's higher value or higher demand related to a particular digital asset.

Ms. Grove Casey

What if an entity uses a third-party custodian or exchange?

Ms. Louis

Just as you would otherwise, if you have an outside service provider, you need to think about things like getting a SOC report, your system organization report, or doing alternative procedures related to evaluating that custodian or exchange's system of controls if a SOC report is not available. But also understanding that even if I use a custodian out there, that I still have complementary user controls, things that I still would want to do to monitor that provider. We need to ensure that we adequately evaluate controls, even if a part of the process is being outsourced to a third party.

Ms. Grove Casey

What special considerations should be taken into account for an entity's financial reporting systems?

Ms. Louis

We do need to think about how it is that we are getting the information to put in our books and records as we have information that's out there in this digital form like the distributed ledger or blockchain. But also to think about, how do I reconcile maybe to the blockchain or to third party records as I'm ensuring that my books and records are complete and accurate?

Do we get a copy of the blockchain? How is it that we're looking at that? And to also consider though, there's things called off-chain transactions where there's activity that's not transmitted to the blockchain, it happens off-chain. What's the extent and nature of these off-chain transactions, and how does that affect the preparation and fair presentation of my financial statements?

Ms. Grove Casey

Let's talk about some of the factors to consider related to internal controls over private keys.

Ms. Louis

When you have your private key, that's like your password. You want to keep that secure. So where are you keeping that private key? How did you generate it? Who has access to it? Those are going to be important things as I want to protect that private key from inappropriate or unauthorized use. But also, I want to make sure that I don't lose it. You don't want to lose your keys and not be able to get access to the assets that you have on this blockchain.

Ms. Grove Casey

What about controls over acquiring digital assets?

Ms. Louis

Certainly, we want to make sure we know what we're buying. What would be the proper classification of this digital asset? Are there any laws or regulations to help me feel comfortable about this digital asset? In addition, we want to think about where is it residing, like, is it accessible? And is it visible as far as where that digital asset is being retained? Those are going to be some of the considerations that you would want to make as we do decide whether to add a digital asset to our balance sheet.

Ms. Grove Casey

Are there any types of digital transactions that you think generally have the highest level of risk?

Ms. Louis

Well, one of the things would be sometimes when you have a distributed ledger, it gets split. It gets forked. That creates an issue where there's an entirely second path from the original blockchain when it was created. It may be that if there is a fork, that it might be incompatible with the previous version. But we also have...things like new types of digital assets that can sometimes be deposited directly into our wallet, like they give us free tokens to encourage adoption of a new type of digital asset. So that also would be something that I would be alert to as I'm thinking about things that have more risk to them.

SUPPLEMENTAL MATERIALS

Accounting for and Auditing Cryptocurrency and Other Digital Assets in 2024

By Jennifer F. Louis, CPA

Introduction

Broadly defined, digital assets are records that are made using cryptography for verification and security purposes, on a distributed ledger (i.e., blockchain). Truly, anything that exists in a digital format and comes with a right to use. They may be a medium of exchange, a representation to provide or access goods or services, or a financing vehicle.

Crypto assets function as a medium of exchange, e.g., bitcoin, ether, etc. They are not issued by a jurisdictional authority and do not give rise to a contract between the holder and another party. They are also not considered to fall under the definition of being a “security” under various SEC-related Acts.

Non-Fungible Tokens (NFTs) are unique, like digital art, as they cannot be replaced with something else. Bitcoin is fungible because it can be traded for another bitcoin and you would have exactly the same thing. Just like with tangible art, anyone can purchase a print but only one person can own the original. The difference is that copies of NFTs are as good as originals. Most NFTs are part of the Ethereum blockchain, but other blockchains can also house and store NFTs.

The major players in the digital asset ecosystem include:

- Entities that hold the digital assets
- Custodians or wallet companies
- Exchanges
- Funds that invest in digital assets
- Vendors accepting digital currency
- Validators
- Accountants and auditors

AICPA Accounting and Financial Reporting Guidance

The AICPA supports publication of a nonauthoritative practice aid *Accounting for and Auditing of Digital Assets*. Originally published in December 2019, it is a “living document” that is periodically expanded to answer emerging questions. It is based on existing professional literature and the experience of members of the AICPA’s Digital Assets Working Group

Digital assets are generally accounted for under Topic 350, *Intangibles – Goodwill and Other*. They lack physical substance. If you can’t touch it, then it is not tangible.

Intangible assets are defined as assets (not including financial assets) that lack physical substance. ASC Topic 350-30 provides guidance on the initial recognition and measurement of intangible assets other than goodwill. It applies to all entities, including nonprofits.

Digital assets are also generally more specifically deemed to be indefinite-lived intangible assets. There is generally no legal, regulatory, contractual, competitive, economic, or other factors to limit the useful life of the asset. Life extends beyond the foreseeable horizon, where “life” is deemed to be the period of time over which the asset is expected to contribute to reporting entity cash flows. “Indefinite” is not the same as “infinite.”

Initial Recognition

Any digital asset is initially measured at cost if purchased with cash. The cost would include any related transaction costs for acquisition.

If consideration exchanged is not in the form of cash, measurement is based on either of the following, whichever is more clearly evident and reliably measured:

- Cost based on fair value of the consideration given
- Fair value of the assets acquired
- Consider the effects of Topic 845, Nonmonetary Transactions

What if the reporting entity received payment from a contract with a customer in the form of a digital asset under ASC Topic 606? The reporting entity would initially measure the intangible asset at fair value as noncash consideration received under Topic 606 in exchange for delivery of a good or service. If fair value is not reasonably estimable, measure the asset at the stand-alone selling price of the goods or services promised to the customer. Any changes in fair value after contract inception do not impact the transaction price. If noncash consideration is to be received in the future (rather than concurrently), consider Topic 815, *Derivatives and Hedging*.

Latest FASB Guidance

On December 13, 2023, the FASB issued guidance requiring all entities holding crypto assets that meet certain requirements to subsequently measure those in-scope crypto assets at fair value, with the remeasurement recorded in net income.

The new standard requires separate presentation of in-scope crypto assets from other intangible assets on the balance sheet. Remeasurement of those crypto assets is also required to be recorded separately from amortization or impairment of other intangible assets in the income statement.

Additional disclosures are required, including significant crypto asset holdings as well as a reconciliation of the beginning and ending balances of crypto assets.

The new guidance should be applied using a modified retrospective transition method with a cumulative-effect adjustment recorded to the opening balance of retained earnings as of the beginning of the year of adoption. All calendar year-end entities with holdings in crypto assets are required to adopt the new standard in 2025, with early adoption permitted.

Subsequent Measurement – Before FASB Update

Prior to the FASB Update, once any indefinite-lived intangible asset was recognized, it was not subject to amortization. It was also not eligible for the fair value option since it is not a financial asset. As an indefinite-lived intangible asset, it was tested for impairment annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Examples of impairment triggering events include the following:

- Identical digital assets are bought and sold on a market price below current carrying value
- May be the reporting entity's principal market or from other digital asset exchanges or markets
- Macroeconomic conditions that could affect significant inputs used to determine fair value
- Legal, regulatory, contractual, political, business, or other factors

As entities often engage in multiple acquisitions and dispositions of digital assets during a period, it may be difficult to determine the unit of account for impairment testing. Because entities usually have the ability to sell or otherwise dispose of each unit (or divisible fraction) of a digital asset separately from any other units, the indivisible unit (or indivisible fraction) is the unit of account for impairment testing. It is important to track the carrying values of individual digital assets or divisible fractions.

How would you record an impairment loss? Measure the loss as the excess of carrying value over fair value for the unit of account. Do not evaluate impairment for a “bundle” of digital assets of the same type purchased at different prices. However, you may evaluate impairment for batches of units of account with the same acquisition date and the same carrying value. The adjusted carrying amount becomes the new basis for that intangible asset. Any subsequent reversal of a previously recognized impairment loss is prohibited.

Fair value may decline below carrying value in the middle of a reporting period but recover by the end of the same period. Impairment testing is still required at any point in time if there is a triggering event. Recognizing any subsequent reversal, even within the same period, is prohibited.

Subsequent Measurement – After FASB Update

The following digital assets may be subsequently measured at fair value, with changes in net income:

- Meet the definition of an intangible asset
- Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- Are created or reside on a distributed ledger or “blockchain”
- Are secured through cryptography
- Are fungible
- Are not created or issued by a reporting entity or its related party

An alternative measurement (such as historical cost less impairment) will not be permitted, even for assets not traded in an active market.

Fair Value Risks

There are a variety of issues that can be encountered when trying to determine fair value for digital assets. For example, digital asset operations may not be fully developed, institutionalized, or regulated. Plus, trading on multiple exchanges may result in inconsistent pricing. Since not all marketplaces are designed to prohibit self-dealing, even an observable trade may not reflect true fair value.

Digital assets often lack even unobservable inputs from which fair values can be determined. For example, financial assets may have defined cash flows streams, which can be discounted at an appropriate rate to estimate fair value.

Digital assets may lack a clear market. ASC Topic 820 requires use of principal (or, in its absence, the most advantageous) market. The principal market is that with the greatest volume and level of activity. The most advantageous market maximizes the amount that would be received to sell the asset.

Digital asset markets may be immature, making identifying a clear market difficult. Due to self-dealing, even volume data may be unreliable and pricing information may be between related parties. Plus, market fragmentation may frequently change the market.

Regardless, a reporting entity is expected to apply ASC Topic 820, *Fair Value Measurement* as best it can. If an entity normally transacts crypto assets through a broker or other intermediary, generally that is considered the principal market, unless another exchange has greater volume and level of activity. Transaction costs may factor into determining the most advantageous market, but not in fair value.

If there is a principal market, fair value is based on the quoted price in that market, even if prices in a different market are potentially more advantageous at the measurement date. Even if a market's normal trading volume is not sufficient to absorb the quantity held, use the identical quoted price in an active market.

The following are other important points related to fair value determination:

- There should be no adjustments to Level 1 inputs. If Level 2 inputs are applied, observable transaction prices may be adjusted.
- In a market with bid-ask spreads, use a price that is most representative of fair value.
- Do not adjust the fair value measurement of a crypto asset to reflect the size of an entity's holding of that asset.
- Establish a reasonable "close" for a market that operates continuously, such as the end of a business day of the reporting entity.

Presentation and Disclosure – Before FASB Update

Aggregate and present as a separate line item in the statement of financial position, at a minimum. The rules do not preclude presentation of individual intangible assets or classes of intangible assets as separate line items. Present amortization expense and impairment losses within income from continuing operations.

As it relates to disclosures:

- In period of acquisition – Disclose the total amount assigned and the amount assigned to any major intangible asset class.
- Each period held – Disclose the total carrying amount and the carrying amount for each major intangible asset class.

For any impairment loss, provide the following:

- A description of the impaired intangible asset and the facts and circumstances leading to the impairment.
- Amount of the impairment loss and method for determining fair value.
- Caption in the income statement or the statement of activities in which the impairment loss is aggregated.
- If applicable, the segment in which the impaired intangible asset is reported per ASC Topic 280 on segment reporting.

Nonpublic entities only are not required to disclose the quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition as normally required by ASC Topic 820.

Presentation and Disclosure – After FASB Update

Under the new ASU, an entity that holds in-scope crypto assets is required to present those crypto assets separately from other intangible assets on the balance sheet. However, the ASU does not address the presentation of crypto assets as current or noncurrent in a classified balance sheet. Reporting entities should evaluate their specific facts and circumstances.

In accordance with ASC 350-60-45-2, the gain or loss associated with remeasurement of crypto assets is reported in net income separately from changes in the carrying amount of other intangible assets each reporting period. However, the ASU does not address whether the gain or loss related to the remeasurement of the crypto assets should be presented as operating or non-operating income in the income statement. Reporting entities should evaluate their specific facts and circumstances.

A reporting entity is required to disclose significant holdings of crypto assets and restrictions on the sale of crypto assets at both interim and annual reporting periods.

For holdings in crypto assets that are determined to be “significant” (based on fair value), a reporting entity is required to disclose the following:

- Name of the crypto asset,
- Cost basis,
- Fair value, and
- Number of units held.

The reporting entity is also required to disclose the aggregated cost bases and fair values of the crypto asset holdings that are not individually significant.

If an entity holds crypto assets that are subject to contractual sales restrictions, the entity will need to disclose the fair value of the crypto assets that are subject to contractual sale restrictions, the nature of the restriction, the remaining duration of the restriction, and circumstances that could cause the restriction to lapse. Sometimes an entity will hold multiple crypto assets with contractual sales restrictions. In that case, the reporting entity will need to evaluate the level of detail necessary to satisfy the required disclosures, including considering the level of aggregation/disaggregation and whether additional information is needed to assess the quantitative information disclosed.

For annual periods, the new ASU also requires entities to disclose the cost basis method (e.g., FIFO, specific identification) used to compute gains and losses as well as a reconciliation of the activity of its holdings in crypto assets. For the annual reconciliation, the following activities are required to be separately disclosed to reconcile the beginning and ending balances:

- Additions,
- Dispositions,
- Recognized gains in net income, determined on an individual crypto-asset-by-crypto-asset basis (for each individual crypto asset holding with a net gain in the annual period), and
- Recognized losses in net income, determined on an individual crypto-asset-by-crypto-asset basis (for each individual crypto asset holding with a net loss in the annual period).

In addition to the reconciliation, entities will be required to describe the nature of activities that result in additions (e.g., purchases, receipts from customers, or mining activities) and dispositions (e.g., sales, payments for services); the total amount of cumulative realized gains and cumulative realized losses from dispositions during the period; and, if not presented separately, the line item in which the gains/losses are presented.

Derecognizing a Digital Asset

Track cost and any subsequent lowering of carrying value due to impairment for each unit of account obtained at different times. It may be clear that the total number of digital assets has decreased, but not specifically which unit purchased was the one sold. Develop a reasonable and rational methodology that is consistently applied (such as First-In, First-Out).

When derecognizing digital assets exchanged for fiat currency:

- If the counterparty is a customer (as selling digital assets is an activity that is part of the entity's ongoing major and central operations), apply Topic 606 and present the sale as revenue
- If the counterparty is not a customer, apply Topic 610, *Other Income* or Topic 845, *Nonmonetary Transactions*, where any gain or loss is typically presented net, outside of revenue as the difference between measured consideration and current carrying value

Reporting Entity Uses a Third-Party Hosted Wallet Service

If a reporting entity holds its digital assets with a custodian:

- Recognize the digital assets if the reporting entity has "control" over the digital asset, consistent with "control" as discussed in Topic 606 and elsewhere in U.S. GAAP.
- Consider the specific facts and circumstances of the custodian and depositor agreement, where legal analysis may be necessary.

Factors to consider in determining who has "control" of any asset when a custodian is involved include the following:

1. Legal and regulatory frameworks applicable, which may depend on jurisdiction
2. Terms indicating whether the depositor will pass title, interest, or legal ownership to custodian
3. Whether the custodian is required to transfer the depositor's original units on deposit
4. Whether the custodian has the right to sell, transfer, loan, encumber, or pledge the deposited digital asset without consent or notice
5. Whether the digital asset isolated from the custodian's creditors in the event of bankruptcy, liquidation, or dissolution
6. Whether the depositor can withdraw the digital asset any time and for any reason
7. Existence of any side agreements or "off-chain" transactions affecting the rights and obligations of the two parties
8. Who holds private keys to multi-signature wallets
9. Who bears the risk of loss if the digital asset is not retrievable due to security breach, hack, theft, fraud, or similar
10. Whether the depositor is impeded by the custodian in any way from receiving all economic benefits of control, including price appreciation

What if the custodian has control of the underlying digital asset? The depositor should recognize a right to receive the digital asset as an asset. The custodian would recognize the digital asset and a corresponding liability. Note: An embedded derivative may also require bifurcation per Topic 815 for both the depositor and custodian.

Critical Internal Controls

Evaluating the design and implementation of an entity's system of internal control should include the technology used to track, aggregate, reconcile, and report digital asset balances and transactions. Controls should be implemented to hold and secure digital assets and authorize transactions. Additionally, controls should exist to identify involvement with third-parties, such as custodial relationships.

If an entity recently incorporated digital assets into its operations, consider the entity's ability to implement a sufficient system of internal control. Certain types of evidence may be difficult to obtain, such as operating effectiveness of controls related to private key management.

Example critical controls over regulatory concerns include the following:

- The pseudo-anonymous nature of transactions presents opportunity for money laundering and other illegal activities
- Noncompliance with "Know Your Customer" (KYC) and other regulations pose business and loss contingency risks (e.g., fines and penalties)
- Risk of "round-trip" or "Lazy Susan" transactions to buy/sell the same asset over and over in "wash sales" with no economic substance to manipulate observers into believing there is higher demand than is true

Control considerations when an entity uses a third-party custodian or exchange include:

- Understand processes for evaluating a System and Organization (SOC) Report or alternative procedures if SOC Report is not available
- Understand complementary user controls
- Understand whether digital assets are commingled in a public address with other depositors and how they are tracked
- Ask – Does the custodian always use the blockchain, or does it sometimes make internal transfers only between two depositors?

SOC Report considerations include:

- Does the SOC1 report contain control objectives related to generation, security, and monitoring of private keys?
- Does SOC2 report provide enough insight into controls over processing transactions?
- Does SOC report address whether customer onboarding and due diligence procedures are performed to ensure compliance with legal and regulatory risks?

Financial reporting system special considerations include:

- An entity may derive its books and records of transactions and balances solely from the blockchain or third party.
- An entity may have a separate financial reporting system, where reconciliation to blockchain or third-party records is required through manual and/or automated processes.
- Does the entity retain a copy of the blockchain?
- Were systems developed in-house or purchased?
- Extent of "off-chain" transactions not transmitted on the blockchain.

Controls over private keys- Gain an understanding of factors such as the following:

- Security of physical location of the private keys
- Key generation process
- Security of entity's data centers
- Access to keys, including redundant keys
- Number of users required to process a transaction, including encrypting, splitting (or sharding) keys, or multi-signature requirements
- Segregation of duties

Consider the entity's risk management process, such as the following:

- Evaluate whether process enables timely identification of new risks
- Changes in applicable laws and regulations
- Changes in GAAP that affect accounting policies
- Changes in blockchain-related technology that may affect safeguarding of digital assets
- Changes in management or key personnel, resulting in changes in skills sets and competencies
- Changes in related party relationships

Consider controls over acquiring digital assets, such as the following:

1. Proper classification of digital assets (e.g., is it a security?)
2. Any regulatory restrictions on the purchase or sale of the digital assets?
3. Any related parties involved in development or governance?
4. Means of providing consideration to pay
5. Accessibility and capability of the network, including any public visibility
6. What technical analysis is performed prior to acquisition, including assessing reliability, integrity, and availability of information obtained from the blockchain?
7. What tools are used to extract transaction and balance data from each blockchain?
8. How does management validate that cut-off times for digital asset balances have been appropriately established and consistently applied?
9. How is the completeness and accuracy of information used in reconciliations ensured?
10. How does management validate that all transactions are appropriately authorized?

11. How does management determine that accounting policies are consistently applied?

12. How would management know if a security breach did (or could) have occurred?

Unique types of transactions that carry higher risk (and stronger controls) include the following:

- Forked digital assets
- Permanent split of the blockchain, where a second path from the original blockchain is created
- Hard forks require updated software to be incompatible with the previous version
- Air-dropped digital assets
- New token is deposited directly into users' wallets
- E.g., free tokens sent in masse to encourage adoption
- Unclaimed or unrecorded digital assets
- Illiquid or thinly traded digital assets

Private key special fraud considerations that require special internal control consideration include the following:

- Loss, destruction, or other impairment of private key may be intentionally hidden to mask financial losses
- Management asserts that private keys were lost, records the losses on the entity's books and records, and misappropriates assets for personal use
- Terminated employee access to decryption of private key is not disabled

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss who the major players are related to crypto assets.
2. Summarize the major impacts of the recent FASB Update related to crypto assets.
3. Discuss control considerations when an entity uses a third-party custodian or exchange, as well as SOC and financial reporting control considerations.

B. Suggested Answers to Discussion Problems

1. The major players in the digital asset ecosystem include:
 - Entities that hold the digital assets
 - Custodians or wallet companies
 - Exchanges
 - Funds that invest in digital assets
 - Vendors accepting digital currency
 - Validators
 - Accountants and auditors
2. On December 13, 2023, the FASB issued guidance requiring all entities holding crypto assets that meet certain requirements to subsequently measure those in-scope crypto assets at fair value, with the remeasurement recorded in net income.

The new standard requires separate presentation of in-scope crypto assets from other intangible assets on the balance sheet. Remeasurement of those crypto assets is also required to be recorded separately from amortization or impairment of other intangible assets in the income statement.

Additional disclosures are required, including significant crypto asset holdings as well as a reconciliation of the beginning and ending balances of crypto assets.

The new guidance should be applied using a modified retrospective transition method with a cumulative-effect adjustment recorded to the opening balance of retained earnings as of the beginning of the year of adoption. All calendar year-end entities with holdings in crypto assets are required to adopt the new standard in 2025, with early adoption permitted.

3. Control considerations when an entity uses a third-party custodian or exchange include:
 - Understand processes for evaluating a System and Organization (SOC) Report or alternative procedures if SOC Report is not available
 - Understand complementary user controls
 - Understand whether digital assets are commingled in a public address with other depositors and how they are tracked
 - Ask – Does the custodian always use the blockchain, or does it sometimes make internal transfers only between two depositors?

SOC Report considerations include:

- Does the SOC1 report contain control objectives related to generation, security, and monitoring of private keys?
- Does SOC2 report provide enough insight into controls over processing transactions?
- Does SOC report address whether customer onboarding and due diligence procedures are performed to ensure compliance with legal and regulatory risks?

Financial reporting system special considerations include:

- An entity may derive its books and records of transactions and balances solely from the blockchain or third party.
- An entity may have a separate financial reporting system, where reconciliation to blockchain or third-party records is required through manual and/or automated processes.
- Does the entity retain a copy of the blockchain?
- Were systems developed in-house or purchased?
- Extent of “off-chain” transactions not transmitted on the blockchain.

PART 3. SMALL BUSINESS

PCC Plain Vanilla Swaps

Derivative financial instruments can be complex and therefore the accounting for them is complex. The Private Company Council provided nonpublic entities with a simplified hedge approach so the amount of interest expense recognized in a pay fixed, receive variable interest rate swap arrangement was similar to that of a fixed rate loan. While this guidance has been available for some time, we thought a refresher of it was in order.

For more on plain vanilla swaps and the alternatives available, let's join Kurt Oestrieher, a CPA and a partner with Oestrieher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about something that the PCC has released guidance on that has recently become of more interest. But to begin with, let's talk a little bit about what the PCC is so that people understand what the implications are for them releasing this guidance.

Mr. Oestrieher

Right, and it is the PCC, which is the Private Company Council, not to be confused with PPC, which is a very widely popular and accepted practice aid that is used by many small practitioners. When the FAF first came out with the term PCC for this new council to assist with private companies, I said, okay, I understand that private companies has the PC, but man, we have to come up with something else. Maybe they weren't aware.

It was interesting because I was actually on AICPA Council at the time that we saw the birth, genesis, whatever you want to call it, of the Private Company Council, and it was a compromise, sort of.... Let's call it that it was a bouquet thrown or an olive branch from the Financial Accounting Foundation. This is now roughly eleven years ago. What happened at the time, there was a tremendous push. It was the strongest push we had ever had to have separate standards for public versus non-public companies, and we've always called that Big GAAP, Little GAAP. Back when I was in college 40 years ago, we were talking about that. I remember college professors talking about how complex GAAP was. But looking back now, it's funny because it wasn't complex in 1982; you didn't have fair value accounting and some of the things there.

We used to have three different ways to calculate earnings per share. I believe there are two now. So maybe there's some issues there. As GAAP did become more complex, there was more of an outcry as to, okay, wait, some of these things that you're asking us to record or present on financial statements or disclose on financial statements the cost just is not worth the benefit for non-public companies. That became a louder and louder drumbeat.

And you had what's called the Judy O'Dell committee. It was a Blue Ribbon Committee.... Her committee was monitoring standards as they were being developed by the FASB and making recommendations. I think by the time her committee stopped doing that, the score was FASB 83, Judy O'Dell zero. In other words, they had taken none of her recommendations.

And ultimately, and I can see their side of it, they said, look, we get it, but it really doesn't matter. A transaction is a transaction is a transaction, regardless of how many zeros are behind it or the size of the company. And therefore, it does not make sense for us to say, just because of the size of the company, that some transactions will be recognized and some will not. The counter argument to that was, remember, the users of the financial statement are vastly different. And it's not so much the size of the company. That's why a lot of people went at it public versus non-public. Because if I had questions, if I were thinking about investing in Exxon stock, and I called the CFO of Exxon and left a message and said, I'm thinking about buying 500 shares or so, and really have a few questions about your financials,

could you call me back? I would wait a long time because I don't think they're ever going to call me back. But for a privately held company if a potential investor or banker or lender or a bonding company have questions, they can contact management directly. And so from a disclosure standpoint, it certainly made sense and there were some differences in disclosures for public versus non-public, but basically the FASB really did not want to go in this direction of establishing a completely different set of standards.

Now understand what's going on across the pond at this time, the International Accounting Standards Committee was developing something called IFRS for SMEs. SMEs stood for small to medium enterprises. So that became a moniker for nonpublic companies, but under the definition of small to medium enterprise, generally it was an entity that did not have a public purpose or whose financial statements did not have to be publicly available. So that's how they did it. The IASB actually came up with this set of rules, accounting standards, that were, I think were 208 pages long. And they said, we're only going to update it every three years. There won't be multiple changes. And man, did that sound enticing. So that's where you really started this drive. And when we heard as much noise as we ever did, and I guess pressure being put on the FASB, and of course, the FASB is controlled by the FAF, the Financial Accounting Foundation. Remember, this is an independent nonprofit organization. The whole reason that this entity is in Connecticut is that was the neutral site that the government and the AICPA chose to place the FAF when it came to a head in the early 1970s, when basically the government, after a scandal said, we will not allow the AICPA to continue to control both the accounting standards and the auditing standards. That was just [the line in the sand].

If y'all don't do something, we're going to come in, and we've seen Congress put pressure on things before. So remember at the time, the whole history of written GAAP had been controlled by the FASB, the Accounting Principles Board. Remember APB Opinions were controlled by the AICPA. So, the AICPA as part of this truce with the government over who should set accounting standards, because again, the government didn't think the AICPA should and the AICPA certainly did not think the government should and it would become a political process, they put them out there.

So now with the AICPA and others putting tremendous pressure on the FAF to create this separate set of standards, the FAF kind of held their ground. I don't think they used the term stay in your lane because I'm not sure that term was widely used in 2013. But ultimately, that's what the FAF did. I mean, they said you asked, we thought about it, and we still don't think it is appropriate to have a separate set of standards. I was at AICPA Council when we drafted a response to the FAF to ask them to reconsider. And, the response to the response was, no, we're not; end of story. But this was the olive branch, the FAF said to improve financial reporting for private companies, we will create this thing called the Private Company Council, PCC.

Mr. Atkinson from East Texas was the first chair, even though his background was Price Waterhouse Coopers, his family had owned the Atkinson Candy Company, which is a large privately held company. Remember when we think of non-public, it's not just the dry cleaner down the street. There's a privately held company here in central Louisiana that's family owned that has over a billion dollars in revenue. Just because you're private doesn't mean you're necessarily a small entity. So Mr. Atkinson, Billy Atkinson, had this experience. He was named the first chair and they came immediately out with a bunch of standards. If the PCC would have basically had the same authority or lack thereof as the Judy O'Dell committee, it would have been ignored. But they actually had the power to propose standards and put them out for exposure draft, and then, vote on them. Now these standards had to be ratified by the FASB to become standards. But for the first time, we actually had someone in there that not only would be monitoring standards as they're developed by the FASB, but they also had the authority to look into the accounting standards codification, which at the time they did this was only about four years old, and say, okay, are there areas within the code that we can amend and make only certain parts applicable to public companies, or give relief to non-public companies?

They immediately got started and started developing some of these standards. Now, by the way, the end of the story, you don't see as many of these PCC. In fact, I want to say the last one they issued that had any impact was several years ago. Candy Wright from here in Louisiana is actually chair of that committee and has been for some time. They meet quarterly. But... the reason why we don't see as much activity is these ideas of improving financial reporting for

private companies that have come through the PCC. By the time the FASB looks at this project, they go, you know what? We can probably make this work for everybody. And it basically became the simplification initiative. There have been standards that have been issued related to goodwill and lots of things in the last seven or eight years that everyone got relief as a result of the efforts of the Private Company Council.

That's kind of the background. I know that's a long-winded answer, but sometimes you just don't say, well, who said it or they said it and it is standard. I mean, once the FASB ratifies the standard by the Private Company Council, it becomes part of the Codification. There are some things that are more obscure than others, but there are a couple of topics out here now that because of certain factors that we're seeing in play in the overall economy, we need to go back and revisit a couple of these standards to make sure that (A) we're aware of the issue; and then, (B) we understand the relief that is provided by guidance that has come from the private company.

Ms. Grove Casey

Well, as I recall, the Private Company Council really only issued maybe four standards. And the one that we want to look at today relates to the plain vanilla interest rate swaps. Now, although that's been out for a few years, we've been in a period of time where interest rates were relatively low. And so it wasn't really that big a deal if you had a variable rate loan because the interest rate was low. But interest rates have started rising and so things are a little different financially than they used to be. So maybe you want to talk about the background to this particular standard.

Mr. Oestrieher

Right, not only are interest rates rising, they're rising rapidly. And of course, as we move into 2024, there's a signal from the Fed that they could slow down. But as we're talking about this, we need to remember history a little bit. I am old enough to remember the history where interest rates went, and I'm going to go from the reference of home mortgage rates from about 6% to 19% in about a three-year period. If anyone can absolutely tell me what interest rates will do in 2024 and 2025 and you have it with 100% certainty, please let me know because I have enough available funds now that my children are paid for I can get into some great swaps and futures and make a fortune. But trying to guess exactly what's going to happen takes a lot of knowledge and a lot of ability and people that are smarter than me. Keep in mind that this rapid rise that we've seen while everyone thinks they're going to start going back down, and because of that, we now have this issue in front of us, they could just as easily go up. It's not a certainty that they will continue to go down. So, what is the issue? Well, why does interest rates rising possibly bring into play some obscure standard issued by the Private Company Council? Well, it has to do with the way businesses typically borrow money.

My small business clients if we need capital and we can't pay off something in five years, but we're buying out a partner, we're buying another business industry, we need a 10 or 15 year loan. I guess sometimes you might find those out there, but the reality is in most traditional banking five years is as far out as banks want to loan money simply because they know that if interest rates go up and they have an interest rate at a certain level, that their cost of funds go up and won't be a profitable loan....

It is very typical, and again, I know there are always outliers, but most business loans have things with, okay, we'll do a... 15-year amortization, five-year balloon. So most people aren't going to pay off that loan, and they just know when they refinance in five years, they're going to have to refinance or save up their money, and then, pay off the loan in five years. And what do most people do? They don't save up their money. They just continue to roll the note and go with 15-year, maybe they'll go to a 10-year amortization.

Those types of loans out there it is safe to say that roughly 20 percent of them are going to mature in the year 2024 just because that's the way it works now maybe PPP and EID loans that came out as a result of the pandemic maybe some people use those funds to refinance there could be some disruption but basically banks always have this rollover. As they are renewing these loans, because interest rates could continue to rise, and just because small businesses like to more easily predict their cash flows, they're going to want a fixed rate loan. Now, three years ago, they wanted a fixed rate loan because a fixed rate loan you could get in [fairly inexpensively].

Remember, these are not home mortgages. Home mortgages are a completely different animal. My daughter and I were just talking about that issue driving yesterday. We'd gone to eat dinner with my daughter, son-in-law, and grandchild, and they're waiting for interest rates to come back down because they moved to Alexandria last year and interest rates were a little bit higher. So we got a non-traditional home mortgage just through a bank that I know and they have to refinance within five years and they're looking for rates to come down. But home mortgage rates, I mean, they had a two and a half percent loan when they were in South Carolina.

Again, you might find a business with a two and a half percent loan, but probably not. Most of our business loans are... people with better, even the lowest they got were in the mid threes maybe, high threes, low fours. Now we're looking more like what, mid-sevens, low eights. It's just been about a 4% jump. So when these people go to refinance these loans, they don't want a variable rate loan, they want a fixed rate. And they know they're paying more, they just don't want it to be even more than what it was. So our motivation now for the fixed rate loan three years ago was that's the cheapest money is ever going to be.

Now it's my goodness I don't want it to go higher. So that's what the consumer wants. What does the bank want? The bank doesn't want to tie up a fixed rate loan over the next five years because their cost of funds could increase. So the bank would rather give you a variable rate loan. It is in the bank's best interest to give a variable rate loan, but it is in the consumer's best interest to have a fixed rate loan. So what do we do? We negotiate. And depending on your bank, with the size of the bank, some banks may just say, nope, we're just going to do a variable rate loan.

But what banks started doing many years ago, and it wasn't even very transparent to the consumer because they didn't care, they were giving the people that thought they had a fixed rate loan a variable rate loan. It's just the payments were fixed. So how did that work if it's a variable rate loan but the payments were fixed based on a 15 year amortization? The reason they do that is there is another document behind that loan or part of the 83 things you had to sign when you closed that loan. It is what we call a fixed pay, variable receive, interest rate swap. When you look at that type of transaction, 25 years ago, from an accounting standpoint, you didn't worry about that, because we didn't call it a derivative back then, it was just something we didn't know what it was.

There was no standard that said you had to call it a derivative or account for it as a derivative. So we just didn't worry about it. But now that banks are doing this where they have a fixed pay, variable receive interest rate swap, that means really what you're doing with this fixed payment every month is you're paying a certain amount of principal and you're paying down your loan, the principal of the loan, based on a 15-year amortization. The remaining part of that payment is you're actually paying the bank, who is the intermediary, your side of the fixed pay, variable receive interest rate swap, and then, there's a counterparty and they are on the fixed receive, variable pay side. If interest rates go up, they lose right because they're receiving fixed and they're paying variable so they might be receiving at seven and a half percent but paying at ten percent so they're having to cut a check to the intermediary, the bank, each month.

However, if interest rates go down, the people on the, I mean, I always say this wrong, the variable pay fixed receive, if interest rates go down to 5%, the bank's going to send them a check, because they win, okay? So that's the way these loans work. And we can understand why we did not see a lot of these loans from a bank's perspective when interest rates were rock bottom, they would love to have had these counterparties out there, but who's going to bet that interest rates were going to go even lower when we're in that three to three and a half percent environment. But folks trust me in the 1980s when loans were at 18%, you had people that are all over the place on those counterparties. And sometimes it was not speculative. It was hedging a risk that they had. So they would work. And the other interesting thing--my sister, she was a licensed CPA. She was in financial reporting at a large publicly traded bank for years. She would say often, when these loans were originated, the bank was actually the counterparty on the fixed received, variable pay side, but then they would bundle enough of those together and then they would hedge that, and they'd have another contract with the party on the other side. Because again, for a \$200,000 loan, they're not going to find anyone with all the paperwork over there. And again, size matters in these issues, so on a \$85,000 loan that's due in three years, the bank's probably just going to give you a fixed rate loan. It is the larger loans, and again, it all depends on the size of the bank as to how much risk they're willing to take in the size of the loan compared to the size of the bank and the risk that the bank sees as to whether or not you would have one of these types of transactions.

So that's the first thing we need to understand is that in this era of rising rates, we need to be aware that when our clients think they have a fixed rate loan, we really need to look at that document and especially audited or reviewed financial statements because you have to make inquiries. And right now, if I ask somebody, did you refinance a loan? And they say, yes, this issue should be top and center of, okay, do we have actually a fixed rate loan or what I just described, a variable loan with a fixed pay, variable receive interest rate swap. And certainly, you'd have to get audit evidence.

You should be looking at the loan document and audit it and read it. And sometimes it's right there, variable rate loan. So we need to be aware of these types of loans as I think they're going to be far more common now in this era of rising interest rates.

Ms. Grove Casey

So did you want to go through some examples, particularly as they relate to what a common small business loan would look like?

Mr. Oestriecher

Right, so here's what GAAP mandates. Now that we have accounting for derivatives, and again, not exactly sure how many years ago this was, but first we had FASB 105, which you just disclosed the exposure. And finally, SFAS 119 came out and we defined a derivative and it's a contract with one or more underlying or notional amounts and under its terms can be typically settled net. And trust me, interest rate swaps meet the definition of a derivative. So what you're required to do under GAAP, is they say, you have two financial instruments here, a loan and a derivative. And please go over to the part of the Codification that talks about variable rate loans and record that loan accordingly. So who cares what you're actually writing a check for, but what really happens in the real world, people look at the amortization, they credit cash and debit interest expense and debit principal for the amount on the amortization that's attached. But what they should be doing is debiting interest expense for the amount of the variable rate. So if the interest rate has gone up 2% based on whatever factor they're using, they should be debiting interest expense for far more than what they're paying, crediting interest payable. And then when they pay the loan, they still have this interest payable on the balance sheet. Then when they can write the check, remember they're actually paying their portion of the contract.... That's easy. Okay. We can figure out how to record that. Debit interest expense and credit interest payable for the interest portion. We can figure that out. And then the portion that we pay, we reduce that liability, but the liability could still be there if interest rates have gone up. So this is because we owe that to the bank. Remember that if the counterparty fails, we still owe that to the bank. So, and that's the crux of all this, is that if interest rates were to go up to 25% and you pay your little part, and then, the bank calls the counterparty and says, oh, okay, you're 14 points back now, you know, on this fixed pay variable receive. So you owe us \$18,000 for your portion of this loan this month because you're really lost on your, you know, here's your fixed receive, here's your money at 9% or 7%. You have to pay us at 21% where it's a check. And they don't get it, so they call them in and there's a little notice to please contact their bankruptcy attorney. Okay, that party's gone. And this happens. Understand this happens.

So now the bank calls you up and says, well, good news and bad news. First of all, we're returning your portion of the fixed pay variable receive interest rate swap because the counterparty is out of business. And so that contract is null and void. You'll have to go to bankruptcy, but you still owe us interest at 21% under the terms of your original loan agreement, which is the amount that you've accrued on your balance sheet. Remember the other parties on the other side, you're going to have a receivable from them. So, that's where this gets sticky because the client then says, wait a second. No, no, I had a fixed rate loan and the bank says, no, read the fine print. And so that's when everyone gets sued, including the CPA.

So that's the reason why the standards require you to bifurcate these financial instruments and separately account for this derivative. And before the Private Company Council gave us relief on a scale of one to 10, the pain was about a nine, because hedge accounting is complex. A lot of small companies don't get it. You also would have wanted to apply the hedge accounting rules, because then it gives some relief, because now we know, hey, this, we weren't speculatively getting into the interest rate swap. It was hedging our risk of increased rates on this loan. But in order

to get these nice hedge accounting rules, which gave you some relief, the first thing you had to do was designate that financial instrument as a hedge on inception. Well, most people didn't even know they even had the hedge. So they didn't even understand that they had that separate financial, so that automatically wiped them out. The second thing that caused so much pain on this is you have to account for that hedge at fair value, which could be difficult to determine as many variable factors are coming into play. So those are the two things that caused so much pain that we needed relief for private companies.

Now, the PCC the first type of relief they asked for would have basically been the equivalent of giving the small business a morphine pump and they had complete control and could give as much morphine as they wanted to. And that was what we called the combined instruments approach, where we just say, you know what, we're just going to treat this as a fixed rate loan because that's what you're accidentally doing anyway, okay? Just treat it as a fixed rate loan and we'll disclose that, hey, you have this potential risk out there. That's what the PCC wanted. Quite frankly, I thought that's what they were going to get.

But the FASB said, nope, we cannot do that. We can't give you that much relief because that liability to that third party counterparty is real. It is a real liability. And we can't just make you hope that you don't ever have to pay or put it in the disclosures. So the relief that the FASB gave us, instead of giving us the morphine pump, they gave us a couple of Tylenol. And we only get two of them for the whole week. Okay, so they gave us some relief but not a lot. So I guess now's a good time to talk about that relief that they gave us.

First of all, it only applies to plain vanilla interest rate swaps. And the type of transaction I just described will always be a plain vanilla interest rate swap. In other words, where the amounts hedge, so if you have a \$2 million loan, the hedge is going to be based on the \$2 million. In other words, that's where you're going to fix that percentage on. It has to relate to the loan. And so I'm not going to get into all the details, but trust me, if it was something that was completely transparent, then you probably have a plain vanilla interest rate. Everything is based on the same index. So if the variable rate in the loan is based on whatever index they have out there, obviously the interest rate swap has to be based on that same index. So all your settlement dates match. In other words, the settlement date on the third party is the same day you make the interest rates, so that you make the payment.

A plain vanilla interest rate swap is the first criteria. And if you have a plain vanilla interest rate swap, which again, I fully believe in every type of situation that I just described, you will meet that criteria, here's the relief you get. First of all, you do not have to designate the hedge at fair value. You get to designate, or excuse me, you do not have to designate the financial instrument as a hedge on the date of inception. You can do it later on....

Ms. Grove Casey

That was huge for a lot of them.

Mr. Oestrieher

Right. And that's what I'm saying. When we discovered in the audit, we go, okay, we're going to go back and now designate this on June 7th of your fiscal year, which is your calendar year. So that's the first thing. That's the first relief. That's pretty good. That's actually, that's worth three Tylenol actually. Okay.... Yes, if they didn't give us that, then you'd be back in the regular.

The second thing that they did, instead of using fair value, you can use settlement value, which you can call the bank, and that's what the settlement value is, which trust me, if you had to put, if there's an extra \$9,346.22 of interest payable on your books, because that's how much interest rates have gone up, trust me, the receivable is going to be for that exact amount. Otherwise, it probably isn't a plain vanilla hedge. That's why people have had these loans for years. Banks have been doing this. And you never had to pay extra or you got a refund back because they always matched up perfectly and the banks don't have to do this. So, and my sister told me that if the bank had ever made a mistake, they would just eat the difference. Okay? Because there's no way they, they really didn't want people to understand that they truly had a variable rate loan. Now everything was disclosed in writing, but if you read all the

fine print of every loan document you've ever done, you haven't. So, once you do that, yeah, well, because of that relief, all we have to do now is, ultimately, understand that we have to debit interest expense for the variable rate, and then, credit interest payable when we pay the amount, reduce the principal, reduce the interest payable for the portion we had, then you debit the interest receivable from the third party, and then, because it is a hedge, you will credit interest expense. So now your interest expense is measured exactly what it is and the bank notifies you get the third party paid.

And so now you get to take out that receivable and payable because the third party paid. And again, if the bank is the counterparty, then it's going to happen every time. So that's the theory, not only the theory, but the reality of how you have to account for these things. But you understand now why I said the relief we wanted was the combined instrument approach. Now materiality is in play here, but you can't look at the size of the loan. You have to look at the interest rates. If interest rates have gone up a quarter of a percent. The unreported amount may not be material, but if interest rates have gone up 12% since the loan inception, I'll bet you it's that unrecorded receivable or potential liability if, let's say, three years from now it's a 12% rate and going down to 4%, well, you're losing every time, but you're actually paying the 12%. So you're not worried about a receivable coming from somewhere else. So understand materiality is in play here, but the main thing is to understand that this type of transaction until the PCC came out with this, I wasn't even aware that their potential issue was out there because it never dawned on me, oh my goodness, this is the way banks are operating. So that was a very, very good standard. I think it came out in 2014. So let's be aware that standard is out there and give us that relief if we see that fact circumstance happening.

SUPPLEMENTAL MATERIALS

Accounting for Plain Vanilla Interest Rates Swap using the Private Company Reporting Option

by Kurt Oestricheer, CPA

Introduction

As interest rates rise, the use of interest rate swaps to hedge against risk for variable loans are becoming popular again. Lenders to small businesses usually create loan terms that do not exceed five years and often include variable rates. As these loans are re-financed, many companies are facing increased interest rates, with the prospect of that rate increasing substantially throughout the life of the loan.

The past few years have seen historically low interest rates. While the risk of rising interest rates was also inherent in these variable rate loans, it was difficult, if not impossible, to find a counter-party in an interest rate swap. The only way for the counter-party to make money on a fixed pay, variable rate swap was to have interest rates go lower. Because the prospect of lower interest rates was almost non-existent, the counter-parties were also non-existent. As interest rates have increased significantly, the prospect for easing of interest rates is now a possibility. There are now counter-parties available that will be the variable pay fixed receive party in a swap.

Basic Accounting Rules for Derivative Financial Instruments

Accounting Standards Codification 815 provides guidance for accounting for derivatives and hedging instruments under United States GAAP. The first step in the process is recognizing the derivative financial instrument that accompanies the variable rate loan. This is the step that is often overlooked as an entity must be cognizant of the fact that (a) the swap exists, and (b) the swap is by definition a derivative financial instrument that must be recognized.

Any entity that enters into a loan agreement that is believed to be a fixed rate loan should carefully review the terms of the loan. Often, the loan document itself will contain a variable rate that is clearly indicated. Because the banker has also included the interest rate swap (and the banker believes the risk of the swap to be non-existent) as one of many documents that is signed at closing, the bank fails to verbally disclose the terms of the two financial instruments.

If an entity determines that there are in fact two separate financial contracts entered into at closing (the variable rate loan and the fixed pay variable receive interest rate swap), the entity must recognize the swap as a derivative financial instrument. United States GAAP provides special rules if a derivative financial instrument meets the criteria for various types of hedges. In most instances, a reporting entity will elect the hedge accounting rules as these rules reduce volatility in earnings. The Private Company Council relief for plain vanilla interest rate swaps provides additional relief for eligible entities.

Initial Recording

The loan will be recorded as any other loan, with a debit to cash and a credit to note payable. The accounting rules for loan costs will also be applied.

There will be no recording of the derivative at inception because there is no settlement amount on the date of inception. The settlement amount will either be an asset or a liability at each subsequent reporting date and will be the difference between the interest due under the loan (variable rate) and the fixed rate that is designated in the swap instrument.

Plain Vanilla Interest Rate Swap Relief

Many private companies found accounting for plain vanilla interest rate swaps to be very time consuming and expensive under United States GAAP. Most private companies that entered into plain vanilla interest rate swaps did so concurrently with the issuance of the variable interest debt instrument (and in some cases management of the

private company did not even understand that they had two separate financial instruments, they just thought they had a fixed rate loan), and were not subject to many of the risks that accompany an investment in a derivative financial instrument.

In order to implement hedge accounting for the interest rate swaps, a company is required to test the effectiveness of the hedge and also comply with many other provisions of ASC 815. Because of the complexities involved, many private companies did not elect to implement hedge accounting, and therefore reported the fair value of the hedging instrument as either an asset or a liability at each balance sheet date, and a resulting gain or loss in earnings. The relief provided under the PCC option eliminates much of the complexity of hedge accounting.

Any private company that has a plain vanilla interest rate swap may elect to apply the provisions of this standard, except the following:

- Employee benefit plans within the scope of ASC 960 through 965
- Financial institutions as described in ASC 942-320-50-1.

The PCC option allows eligible private companies the ability to elect the simplified hedge accounting approach for plain vanilla interest rate swaps. This approach will allow an entity to reflect interest expense at the effective fixed rate, but will also require the entity to reflect either an asset or liability with the counter party. The entity will first record interest expense and interest payable (or accrued interest) at the variable rate that is included in the loan document. The entity will then record an asset (if the variable rate is higher than the fixed rate in the swap) or a liability (if the variable rate is lower than the fixed rate in the swap) to the counter party. The off-setting debit or credit to interest expense will then align the interest expense recognized with the fixed rate that is stated in the swap.

In order to apply the provisions available to non-public entities, the following criteria must be met when the debt instrument and the interest rate swap are consummated:

1. Both the variable rate on the swap (instrument 1) and borrowing (instrument 2) are based on the same index and reset period.
2. The terms of the swap are typical of a plain vanilla interest rate swap, and there is no floor or cap on the variable interest rate of the swap unless the borrowing has a similar floor or cap.
3. The repricing and settlement dates for the swap and the borrowing match or differ by no more than a few days.
4. The swap's fair value at inception is at or near zero.
5. The notional amount of the swap matches the principal amount of the borrowing being hedged. The amount of the borrowing being hedged may be less than the total principal amount of the borrowing.
6. All interest payments occurring on the borrowing during the term of the swap are designated as hedged whether in total or in proportion to the principal amount of the borrowing being hedged.

Entities that elect the simplified hedging approach will have the option to measure the designated swap at settlement value instead of fair value. This will eliminate the need to consider non-performance risk. This will allow a company to estimate the settlement value by performing a present value calculation of the swap's remaining cash flows using a valuation technique that is not adjusted for nonperformance risk.

The documentation, disclosure, and all other requirements of ASC 815 will still apply under the simplified hedging approach.

Disclosure Issues

A common mistake that is made by small business entities is to include footnote disclosures related to such loans as having a fixed interest rate. It is important that entities disclose the actual terms of the note, which will typically be a variable rate. Any disclosure that would indicate that there is a very low risk that the variable rate would be paid should be avoided. The reporting entity is responsible for the variable rate and interest expense should be recorded and accrued based on the variable rate. If interest rates have increased, there will be a corresponding asset that will be the receivable from the counter-party. Both the asset and liability will be reported on the balance sheet. The net interest is reported on the income statement, therefore earnings are reported as if the fixed rate is the actual rate to the entity.

Materiality

Materiality always plays a role when issuing or preparing financial statement in accordance with United States GAAP. Because the provisions discussed herein will typically have zero impact on net income, an argument can be made that recording all of the various transactions and recognizing the swap is not material and can therefore be avoided. When determining materiality for these types of transactions, the focus of the departure should not be on the income statement, but instead on the unrecorded asset or liability on the balance sheet and the impact on the disclosures.

An entity that is a party to a variable rate loan has risk of significant increases in costs that are beyond their control. To mitigate this risk, the entity will enter into the swap. However, that is no guarantee that the counterparty will be able to perform. If interest rates rise sharply, and this has occurred previously in the United States, counterparties that have not properly balanced and hedged their own portfolio could fold. If this were to happen, the reporting entity is still liable to the lender for the actual accrued interest on the loan, there just would no longer be a receivable from the counterparty.

Any entity that is attempting to determine the materiality of ignoring the swap and just treating the loan instrument as a fixed rate loan (the single instrument approach), should carefully consider the impact on current assets and current liabilities, as well as disclosure.

Summary

The most difficult transactions to identify when maintaining a set of accounting records are those that are not in the normal course of business and must be “discovered” through diligence. Plain vanilla interest rate swaps are the top of the list of such transactions and an entity should have procedures in place to properly vet loan agreements and determine if United States GAAP has been followed.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss the basic accounting principles for derivative financial instruments under US GAAP.
2. Discuss the PCC option that permits eligible private companies to elect the simplified hedge accounting approach for plain vanilla interest rate swaps.
3. Discuss the role of materiality in preparing the financial statements with regard to interest rate swaps for those entities eligible for the PCC election.

B. Suggested Answers to Discussion Problems

1. Accounting Standards Codification 815 provides guidance for accounting for derivatives and hedging instruments under United States GAAP. The first step in the process is recognizing the derivative financial instrument that accompanies the variable rate loan. This is the step that is often overlooked as an entity must be cognizant of the fact that (a) the swap exists, and (b) the swap is by definition a derivative financial instrument that must be recognized.

Any entity that enters into a loan agreement that is believed to be a fixed rate loan should carefully review the terms of the loan. Often, the loan document itself will contain a variable rate that is clearly indicated. Because the banker has also included the interest rate swap (and the banker believes the risk of the swap to be non-existent) as one of many documents that is signed at closing, the bank fails to verbally disclose the terms of the two financial instruments.

If an entity determines that there are in fact two separate financial contracts entered into at closing (the variable rate loan and the fixed pay variable receive interest rate swap), the entity must recognize the swap as a derivative financial instrument. United States GAAP provides special rules if a derivative financial instrument meets the criteria for various types of hedges. In most instances, a reporting entity will elect the hedge accounting rules as these rules reduce volatility in earnings. The Private Company Council relief for plain vanilla interest rate swaps provides additional relief for eligible entities.

2. The PCC option allows eligible private companies the ability to elect the simplified hedge accounting approach for plain vanilla interest rate swaps. This approach will allow an entity to reflect interest expense at the effective fixed rate, but will also require the entity to reflect either an asset or liability with the counter party. The entity will first record interest expense and interest payable (or accrued interest) at the variable rate that is included in the loan document. The entity will then record an asset (if the variable rate is higher than the fixed rate in the swap) or a liability (if the variable rate is lower than the fixed rate in the swap) to the counter party. The off-setting debit or credit to interest expense will then align the interest expense recognized with the fixed rate that is stated in the swap.
3. Materiality always plays a role when issuing or preparing financial statement in accordance with United States GAAP. Because the provisions discussed herein will typically have zero impact on net income, an argument can be made that recording all of the various transactions and recognizing the swap is not material and can therefore be avoided. When determining materiality for these types of transactions, the focus of the departure should not be on the income statement, but instead on the unrecorded asset or liability on the balance sheet and the impact on the disclosures.

An entity that is a party to a variable rate loan has risk of significant increases in costs that are beyond their control. To mitigate this risk, the entity will enter into the swap. However, that is no guarantee that the counterparty will be able to perform. If interest rates rise sharply, and this has occurred previously in the United States, counterparties that have not properly balanced and hedged their own portfolio could fold. If this were to happen, the reporting entity is still liable to the lender for the actual accrued interest on the loan, there just would no longer be a receivable from the counterparty.

Any entity that is attempting to determine the materiality of ignoring the swap and just treating the loan instrument as a fixed rate loan (the single instrument approach), should carefully consider the impact on current assets and current liabilities, as well as disclosure.

GLOSSARY OF KEY TERMS

Bitcoin—a type of digital currency in which a record of transactions is maintained and new units of currency are generated by the computational solution of mathematical problems, and which operates independently of a central bank.

Blockchain—a system in which a record of transactions, especially those made in a cryptocurrency, is maintained across computers that are linked in a peer-to-peer network.

Derivative—financial contracts, set between two or more parties, that derive their value from an underlying asset, group of assets, or benchmark. A derivative can trade on an exchange or over-the-counter. Prices for derivatives derive from fluctuations in the underlying asset.

Ethereum—a blockchain-based development platform known for its cryptocurrency, ether (ETH)

Vanilla Interest Rate Swap—the most commonly traded and most liquid interest rate swaps where fixed-rate payments are exchanged for variable-rate payments

NFT—A non-fungible token (NFT) is a unique digital identifier that is recorded on a blockchain and is used to certify ownership and authenticity.

Wrapped Token— a cryptocurrency whose value has been pegged to the value of another token 1:1.

Choose the best response and record your answer in the space provided on the answer sheet.

1. According to Russ Madray, under ASU 2023-08, which of the following is *not* a required disclosure for crypto assets?
 - A. For annual and interim periods, the name, cost basis, fair value, and number of units for each significant crypto asset holding.
 - B. For annual periods, the method used to determine the cost basis of crypto assets disposed of when calculating gains and losses.
 - C. An annual reconciliation of aggregate crypto asset holdings, from the opening to the closing balance.
 - D. For crypto assets not subject to contractual sale restrictions as of the balance sheet date, the fair value of those assets.

2. According to Russ Madray, when is ASU 2023-08 effective for all entities, including public, private, and not-for-profit?
 - A. Fiscal years beginning after December 15, 2023.
 - B. Fiscal years beginning after December 15, 2024.
 - C. Fiscal years beginning after December 15, 2025.
 - D. Fiscal years beginning after December 15, 2026.

3. According to Russ Madray, under ASU 2023-09, which of the following statements about the rate reconciliation disclosure requirements for public business entities (PBEs) is true?
 - A. PBEs are required to provide a tabular rate reconciliation using either percentages or reporting currency amounts.
 - B. The ASU requires the use of six specific categories within the tabular rate reconciliation.
 - C. The quantitative threshold for the designated categories requiring further disaggregation is 10%.
 - D. The changes in unrecognized tax benefits category may include reconciling items for all jurisdictions on an aggregate basis.

4. According to Russ Madray, which of the following is *not* one of the eight specific categories required in the tabular rate reconciliation for PBEs under ASU 2023-09?
 - A. State and local income tax, net of federal income tax effect
 - B. Foreign tax effects
 - C. Effect of changes in tax laws or rates enacted in the current period
 - D. Deferred tax asset valuation allowance

5. According to Russ Madray, when is ASU 2023-09 effective for public business entities?
 - A. Annual periods beginning after December 15, 2023
 - B. Annual periods beginning after December 15, 2024
 - C. Annual periods beginning after December 15, 2025
 - D. Annual periods beginning after December 15, 2026

Continued on next page

6. According to Jennifer Louis, which of the following is **not** a characteristic of digital assets as defined in the material?
- A. They are records made using cryptography for verification and security purposes.
 - B. They exist in a physical, tangible format.
 - C. They reside on a distributed ledger or blockchain.
 - D. They come with a right to use in a digital format.
7. According to Jennifer Louis, how should digital assets be initially recognized according to the AICPA's non-authoritative practice aid?
- A. At fair value
 - B. At cost
 - C. At the lower of cost or market value
 - D. At the higher of cost or fair value
8. According to Jennifer Louis, under the new FASB guidance, which digital assets are required to be measured at fair value with changes recorded in net income?
- A. All digital assets
 - B. Intangible, fungible crypto assets secured by cryptography on a blockchain
 - C. Non-fungible tokens (NFTs)
 - D. Digital assets held by a custodian or exchange
9. According to Jennifer Louis, which of the following is **not** a disclosure requirement for significant crypto asset holdings under the new FASB guidance?
- A. The name of the asset
 - B. The cost basis of the asset
 - C. The fair value of the asset
 - D. The expected future cash flows from the asset
10. According to Jennifer Louis, what is a key consideration for internal controls when an entity uses a third-party custodian or exchange for digital assets?
- A. Obtaining a SOC report or performing alternative procedures to evaluate the third party's controls
 - B. Ensuring that the entity has no complementary user control responsibilities
 - C. Relying solely on the third party's controls without any oversight
 - D. Avoiding the use of any third-party services for digital asset custody or exchange

Continued on next page

11. According to Kurt Oestriecheer, what was the main purpose of creating the Private Company Council (PCC)?
- A. To develop a separate set of accounting standards for private companies
 - B. To monitor FASB standards and propose amendments to provide relief for private companies
 - C. To replace the FASB as the standard-setting body for private companies
 - D. To provide guidance on auditing standards for private companies
12. According to Kurt Oestriecheer, which of the following is **not** a characteristic of a plain vanilla interest rate swap?
- A. The amounts hedged relate to the loan amount
 - B. The settlement dates of the swap match the loan payment dates
 - C. The variable rate in the loan and the swap are based on different indexes
 - D. The swap is entered into concurrently with the loan
13. According to Kurt Oestriecheer, what relief did the PCC provide for accounting for plain vanilla interest rate swaps?
- A. Allowing the combined instrument approach, treating the swap and loan as a single fixed-rate instrument
 - B. Eliminating the need to account for the swap separately from the loan
 - C. Permitting the designation of the swap as a hedge after inception and using settlement value instead of fair value
 - D. Allowing the swap to be accounted for using the cash basis method
14. According to Kurt Oestriecheer, what is the main risk for the borrower in a fixed-pay, variable-receive interest rate swap if the counterparty fails?
- A. The borrower may have to pay interest at the variable rate, which could be significantly higher
 - B. The borrower will have to find a new counterparty to continue the swap arrangement
 - C. The borrower will be required to pay off the loan immediately
 - D. The borrower will not be able to deduct the interest expense on their tax return
15. According to Kurt Oestriecheer, what should a CPA consider when determining the materiality of the unrecorded receivable or liability related to an interest rate swap?
- A. The size of the loan
 - B. The change in interest rates since the loan inception
 - C. The remaining term of the loan
 - D. The creditworthiness of the counterparty

Subscriber Survey Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to CeriFi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to CPLgrading@cerifi.com.

How would you rate the topics covered in the May 2024 **CPE Network® A&A Report**? Rate each topic on a scale of 1–5 (5=highest):

| | Topic Relevance | Topic Content/ Coverage | Topic Timeliness | Video Quality | Audio Quality | Written Material |
|------------------------------------|----------------------|-------------------------------|----------------------|----------------------|----------------------|----------------------|
| FASB Update Crypto and Income Tax | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Auditing Digital Assets and Crypto | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| PCC Plain Vanilla Swaps | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |

Which segments of the May 2024 issue of **CPE Network® A&A Report** did you like the most, and why?

Which segments of the May 2024 issue of **CPE Network® A&A Report** did you like the least, and why?

What would you like to see included or changed in future issues of **CPE Network® A&A Report**?

How would you rate the effectiveness of the speakers in the May 2024 CPE Network® A&A Report? Rate each speaker on a scale of 1-5 (5 highest):

| | Overall | Knowledge of Topic | Presentation Skills |
|-----------------|----------------|-------------------------------|--------------------------------|
| Russ Madray | ____ | ____ | ____ |
| Jennifer Louis | ____ | ____ | ____ |
| Kurt Oestrieher | ____ | ____ | ____ |

Are you using CPE Network® A&A Report for: CPE Credit Information Both

Were the stated learning objectives met? Yes No _____

If applicable, were prerequisite requirements appropriate? Yes No _____

Were program materials accurate? Yes No _____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes No

Were the time allocations for the program appropriate? Yes No _____

Were the supplemental reading materials satisfactory? Yes No _____

Were the discussion questions and answers satisfactory? Yes No _____

Specific Comments: _____

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CHECKPOINT LEARNING NETWORK

CPE NETWORK[®]

USER GUIDE

REVISED December 31, 2023

Welcome to CPE Network!

CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **“Group Live” Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **“Group Internet Based” Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **“Self-Study” Format:** Each participant can take the self-study version of the CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **Transitioning From DVDs:** For groups playing the video from the online platform, we suggest downloading the video from the Checkpoint Learning player to the desktop before projecting.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), Checkpoint Learning Network will not be the sponsor and will not issue certificates. In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for each of the 3 formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to CeriFi, LLC.

If you have any questions on this documentation or requirements, refer to the “Getting Help” section at the end of this User Guide **BEFORE** you conduct your training.

**We are happy that you chose CPE Network for your training solutions.
Thank you for your business and HAPPY LEARNING!**

Copyrighted Materials

CPE Network program materials are copyrighted and may not be reproduced in another document or manuscript in any form without the permission of the publisher. As a subscriber of the **CPE Network Series**, you may reproduce the necessary number of participant manuals needed to conduct your group study session.

“Group Live” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant’s CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a **qualified, real time instructor while the program is being presented**. Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study online.

- If the emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by Checkpoint Learning Network after the “group live” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the “group live” session, it is required that the firm hosting the “group live” session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

Note: DVDs no longer ship with this product effective 3/1/2023.

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

The entire transcript is also available as a pdf in the Checkpoint Learning player in the resource toolbox at the top of the screen, or via the link in the email sent to administrators.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group live” session should be sent to Checkpoint Learning Network by the following means:

Email: CPLgrading@cerifi.com

When sending your package to CeriFi, you must include ALL of the following items:

| Form Name | Included? | Notes |
|-----------------------------------|-----------|---|
| Advertising / Promotional Page | | Complete this form and circulate to your audience before the training event. |
| Attendance Sheet | | Use this form to track attendance during your training session. |
| Subscriber Survey Evaluation Form | | Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant. |

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report**. This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism) to periodically check the participants’ engagement throughout the delivery of the program. Participants’ two-way video should remain on during the entire presentation.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and asks that participants confirm their attendance by using the “raise hands”

feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone's hands and continues the training.

2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing "Present" into the Teams chat box. The moderator records the participants who have entered "Present" into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app's report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be "content specific." Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a "group internet based" delivery format.**

Real Time Moderator During Program Presentation

"Group internet based" programs must have a **qualified, real time moderator while the program is being presented**. Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance

monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

Make-Up Sessions

Individuals who are unable to attend the “group internet based” session may use the program materials for self-study either in print or online.

- If emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by Checkpoint Learning Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the “group internet based” session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be “virtual”) of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

Note: DVDs are no longer shipped effective 3/1/2023

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. It should look something like the screenshot below. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

Alternatively, for those without a DVD drive, the email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group internet based” session should be sent to Checkpoint Learning Network by the following means:

Email: CPLgrading@CeriFi.com

When sending your package to CeriFi, you must include ALL the following items:

| Form Name | Included? | Notes |
|----------------------------------|-----------|---|
| Advertising / Promotional Page | | Complete this form and circulate to your audience before the training event. |
| Webinar Delivery Tracking Report | | Use this form to track the attendance (i.e., polling questions) during your training webinar. |
| Evaluation Form | | Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to return an evaluation for every participant. |

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Email

Follow these simple steps to use the printed transcript and video:

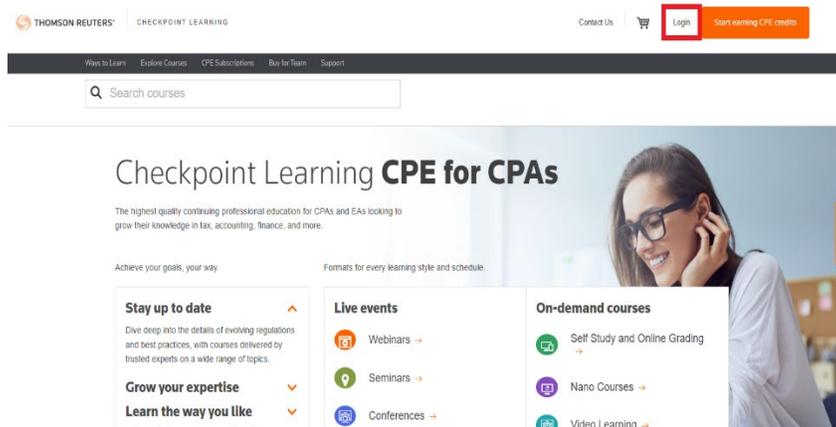
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- E-mail your completed quizzer and survey to:

CPLgrading@cerifi.com

Self-Study—Online

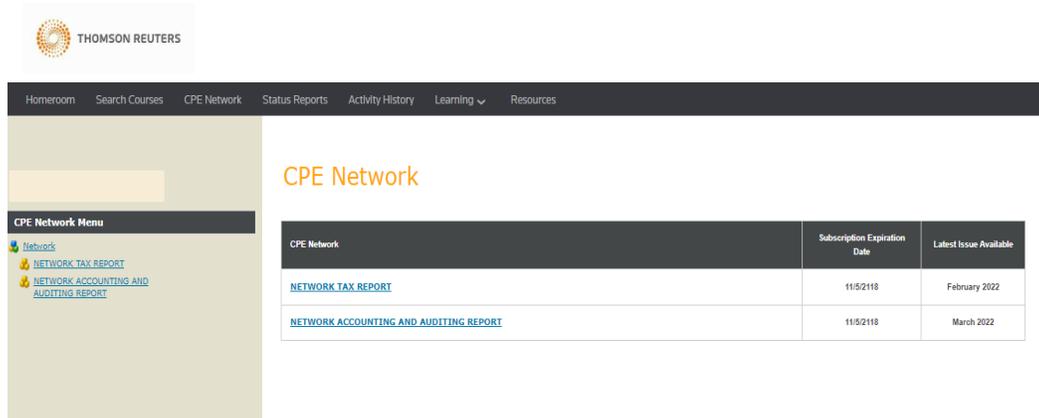
Follow these simple steps to use the online program:

- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

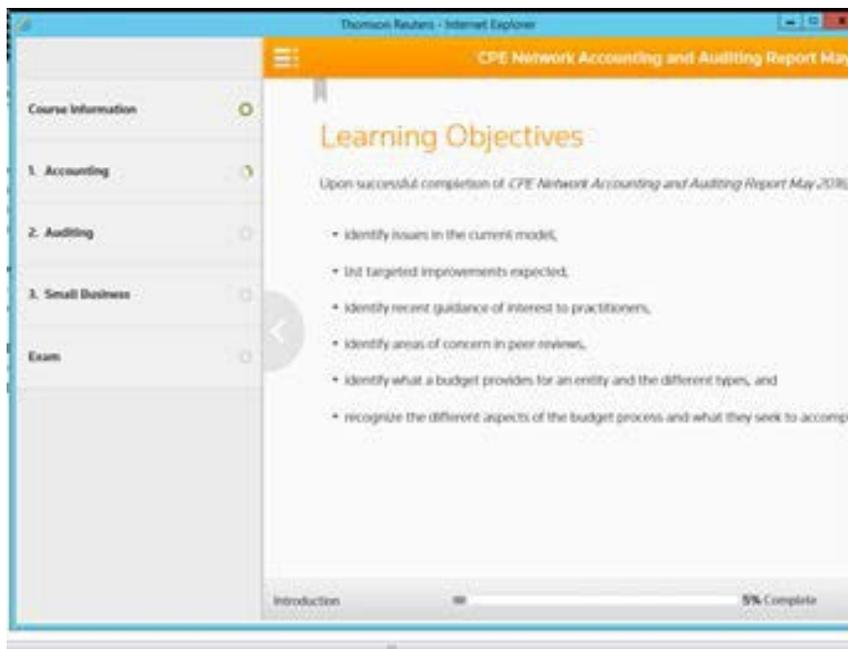


The screenshot shows the homepage of the Checkpoint Learning website for CPAs. At the top, there is a navigation bar with the Thomson Reuters logo, a search bar, and links for 'Contact Us', 'Login', and 'Start earning CPE credits'. Below the navigation bar is a search bar with the text 'Search courses'. The main content area features a large banner with the text 'Checkpoint Learning CPE for CPAs' and a sub-headline 'The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more.' Below the banner, there are three columns of content: 'Stay up to date', 'Live events', and 'On-demand courses'. The 'On-demand courses' column includes links for 'Self Study and Online Grading', 'Nano Courses', and 'Video Learning'. A woman wearing glasses is visible in the background of the banner.

- In the **CPE Network** tab, select the desired Network Report and then the appropriate edition.

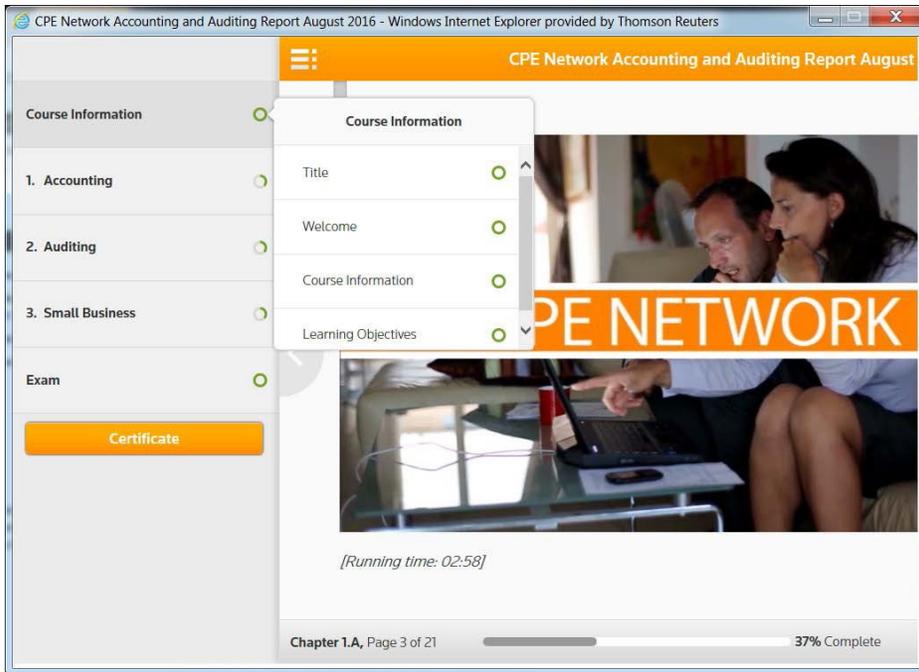


The Chapter Menu is in the gray bar at the left of your screen:



Click down to access the dropdown menu and move between the program Chapters.

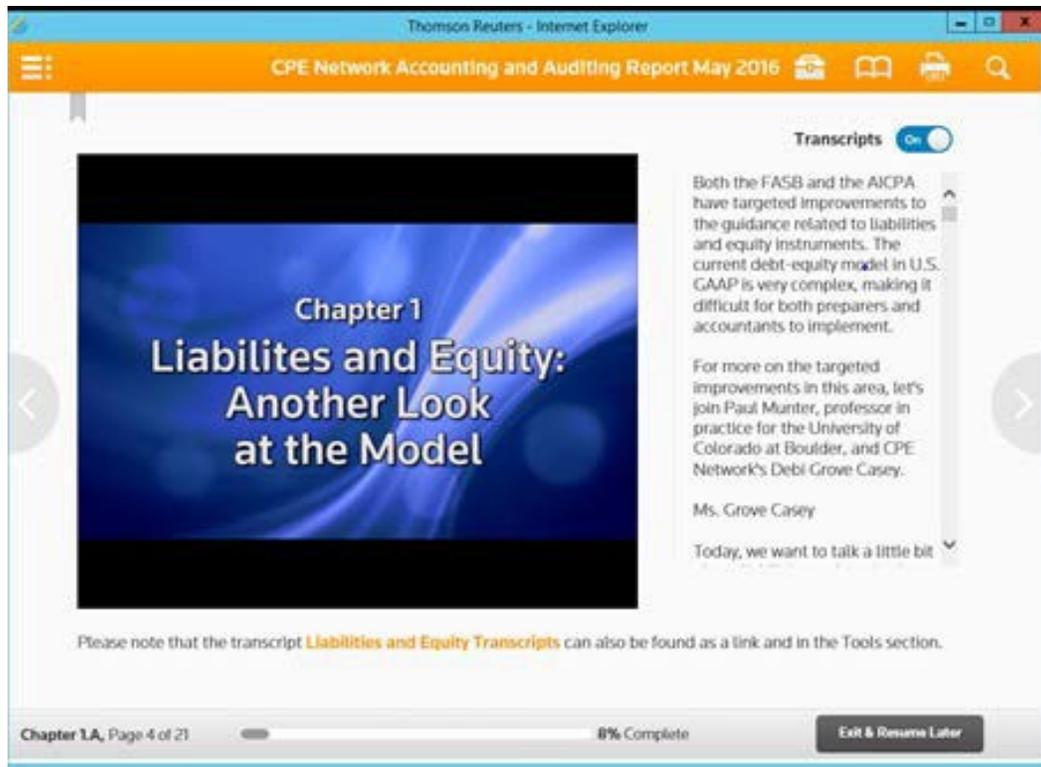
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



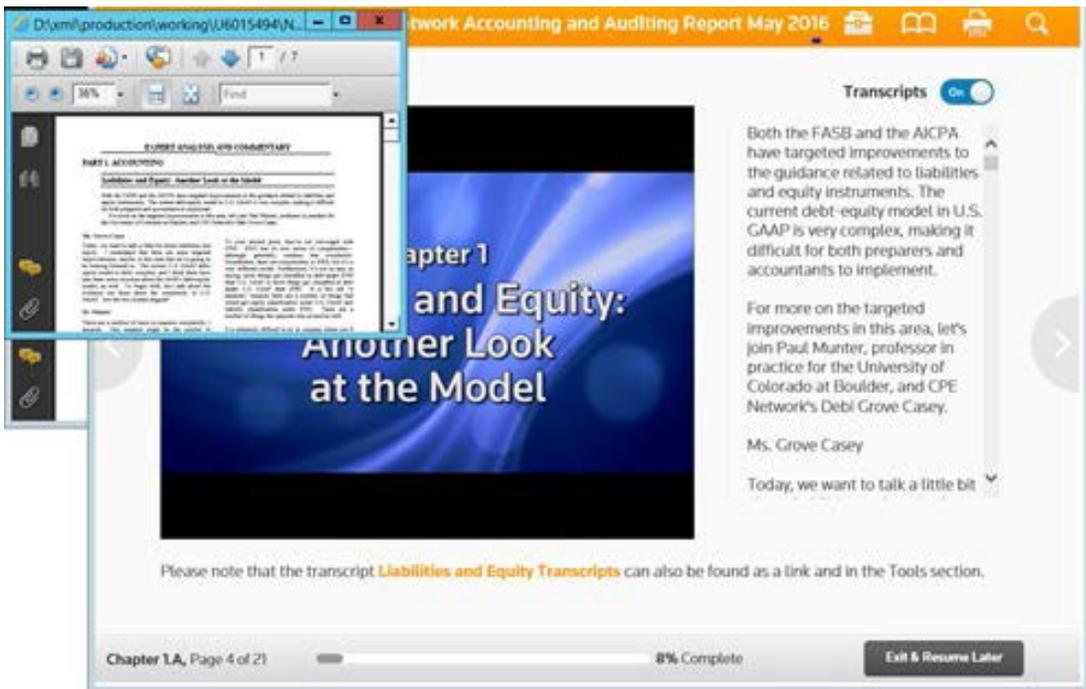
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This streamlined approach allows administrators and users to more easily access the related materials.



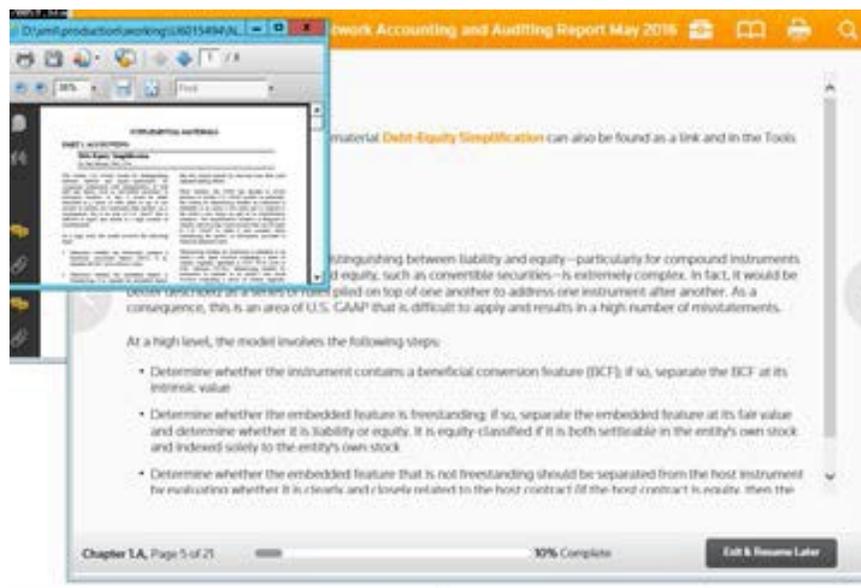
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts** or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.



Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.



Continuing to click the arrow to the right side of the screen will bring the user to the Discussion problems related to the segment.

The Suggested Answers to the Discussion Problems follow the Discussion Problems.

The screenshot shows a digital document interface for a CPE report. At the top, an orange header bar contains the text "CPE Network Accounting and Auditing Report July 2016" and several icons: a hamburger menu, a printer, a book, a document, and a search icon. Below the header, the main content area is titled "Suggested Answers to Discussion Problems". It contains three numbered items:

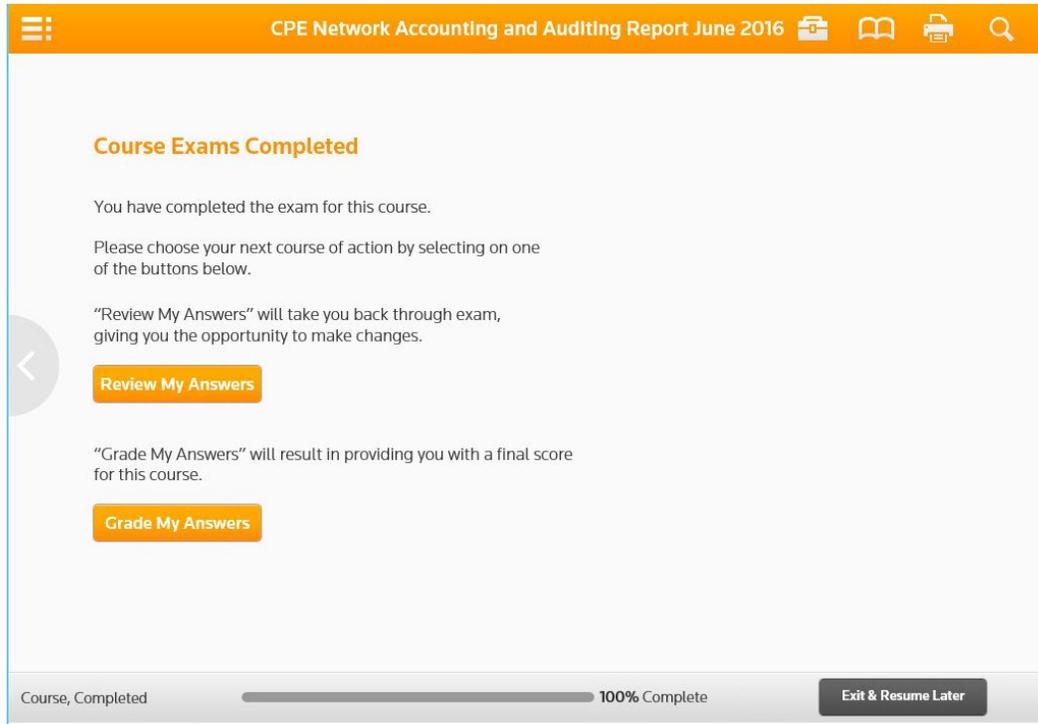
1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:
 - Held-to-maturity
 - Trading
 - Available-for-sale

An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.
3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

At the bottom of the page, a grey footer bar displays "Chapter 3.A, Page 20 of 20" on the left, a progress indicator showing "100% Complete" in the center, and a button labeled "Exit & Resume Later" on the right.

The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade or the Review button**.



- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

Checkpoint Learning offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

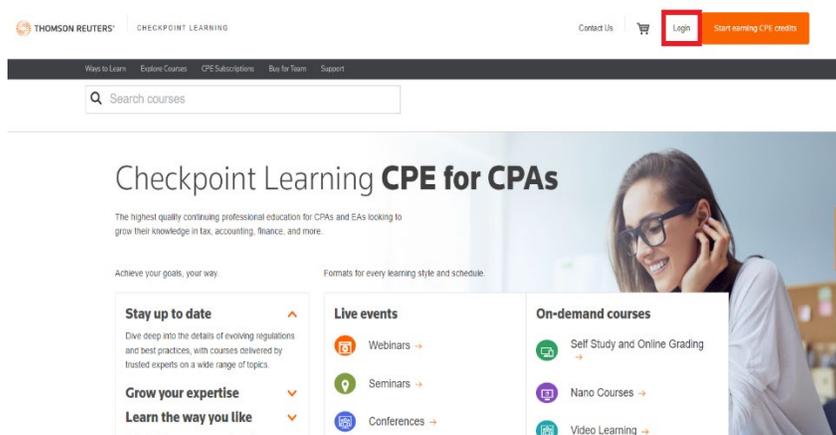
Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

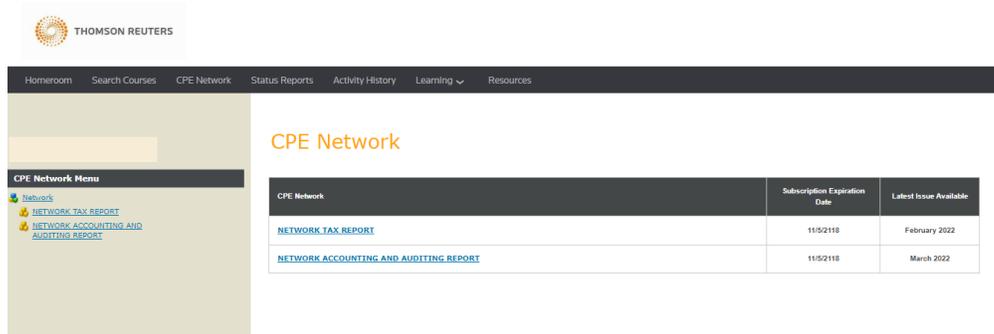
Transitioning From DVDs

Follow these simple steps to access the video and pdf for download from the online platform:

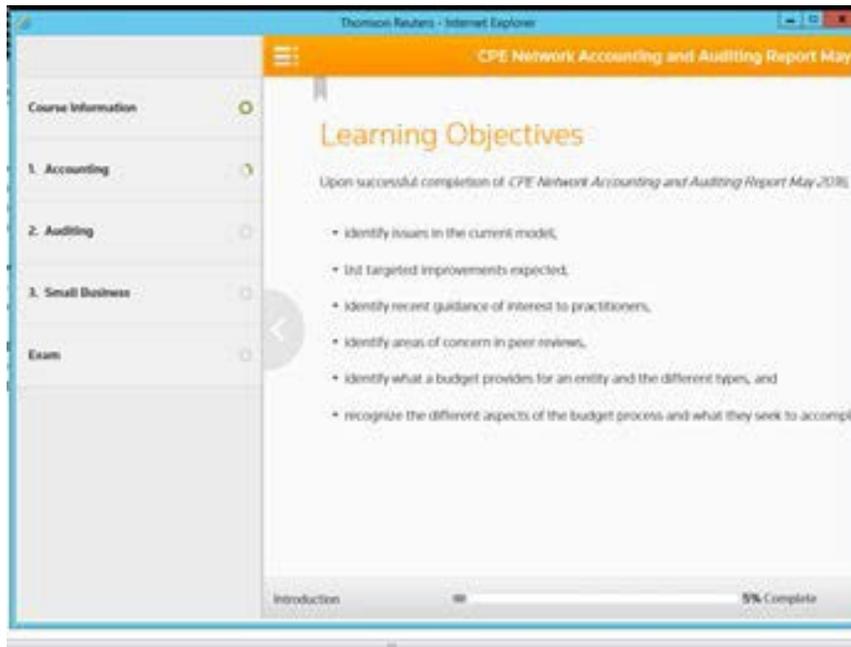
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login”).



- In the CPE **Network** tab, select the desired Network Report by clicking on the title, then select the appropriate edition.

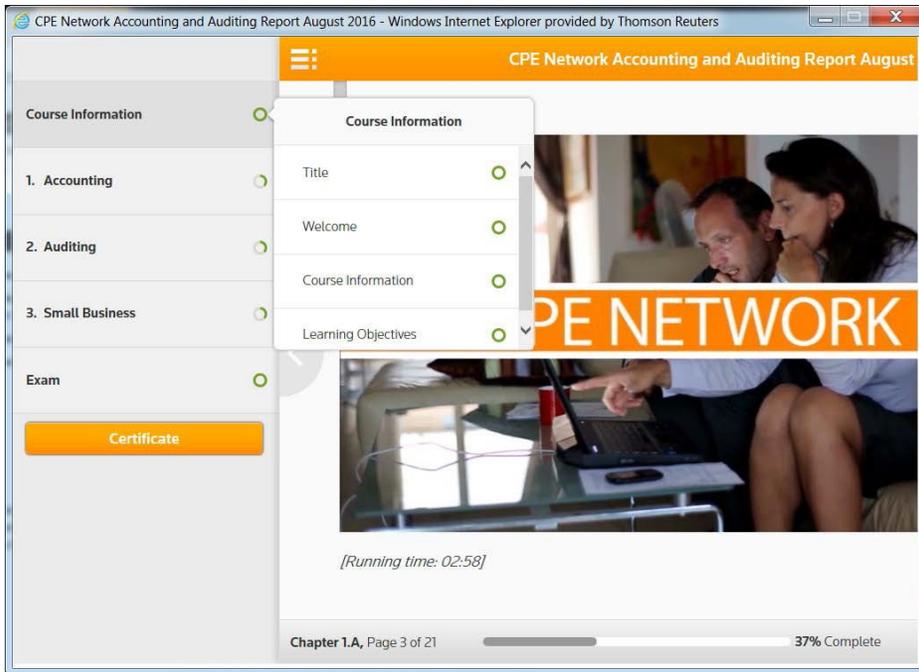


The Chapter Menu is in the gray bar at the left of your screen:



Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



- Each Chapter is self-contained. Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions.



Video segments may be downloaded from the CPL player by clicking on the download button noted above. You may need to use the scroll bar to the right of the video to see the download button. **Tip: You may need to use the scroll bar to the right of the video to see the download button.**

PDFs may be downloaded from either the course toolbox in the upper right corner of the Checkpoint Learning screen or from the email sent to administrators with each release.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and “no shows”)
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits).

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a qualified, real-time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate (if any).
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

| Delivery Method | Form Name | Location | Notes |
|---|-------------------------------------|-----------------|--|
| “Group Live” / “Group Internet Based” | Advertising / Promotional Page | Transcript | Complete this form and circulate to your audience before the training event. |
| “Group Live” | Attendance Sheet | Transcript | Use this form to track attendance during your training session. |
| “Group Internet Based” | Webinar Delivery Tracking Report | Transcript | Use this form to track the ‘polling questions’ which are required to monitor attendance during your webinar. |
| “Group Live” / “Group Internet Based” | Evaluation Form | Transcript | Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. |
| Self Study | CPE Quizzer Answer Sheet | Transcript | Use this form to record your answers to the quiz. |

Getting Help

Should you need support or assistance with your account, please see below:

| Support Group | Phone Number | Email Address | Typical Issues/Questions |
|----------------------|---------------------|--|---|
| Technical Support | 844.245.5970 | Cplsupport@cerifi.com | <ul style="list-style-type: none">• Browser-based• Certificate discrepancies• Accessing courses• Migration questions• Feed issues |
| Product Support | 844.245.5970 | Cplsupport@cerifi.com | <ul style="list-style-type: none">• Functionality (how to use, where to find)• Content questions• Login Assistance |
| Customer Support | 844.245.5970 | Cplsupport@cerifi.com | <ul style="list-style-type: none">• Billing• Existing orders• Cancellations• Webinars• Certificates |