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Ms. Hester M. Peirce
Commissioner
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Request for response to Crypto Task Force questions

Dear Commissioner Peirce:

We appreciate the opportunity to provide this letter in response to your recent speech, "There Must Be Some Way Out of Here." We fully support the formation of the SEC's Crypto Task Force and the objective of providing regulatory clarity for crypto assets while balancing and maintaining an environment that supports innovation and investor protection. We support the shared interest in arriving at cost-beneficial solutions that provide transparency to stakeholders through relevant and decision-useful information subject to high-quality audits or attestation services.

The perspectives that follow focus on the primary areas of our involvement with crypto assets which include topics related to the accounting for and auditing of crypto assets and related activities.

Regulations and Authoritative Guidance

We believe providing clarity in the areas of market structure, registration, exchanges, custody and other areas would play an important role in strengthening the foundation for the ways entities engage in this industry and strengthen the quality and reliability of information used in the preparation and audits of financial information.

Where possible and appropriate, we believe flexible, principles-based guidance may best serve this emerging and evolving space. Due to the unique nature of crypto assets, it is crucial to be clear about the scope of new or amended rules/guidance.

As it specifically relates to auditing and accounting, we encourage the issuance or amendment of guidance be led by the independent standard-setters and interpretive bodies (FASB, PCAOB, AICPA). Consistent with their existing practices, we encourage those bodies to meaningfully engage with their stakeholders – including investors, preparers and practitioners – to strike the appropriate balance for any new guidance between principles-based standards that can stand the test of time and practical, implementation guidance that helps preparers and auditors achieve consistency and quality.

Accounting Considerations

In your recent speech, you asked about 'commonly accepted practice and standards for accounting for crypto asset investments and transactions'. In our experience, such commonly accepted practices and standards exist and include the following (not necessarily exhaustive).

- Existing US GAAP on crypto assets, principally ASC Subtopic 350-60 (crypto assets) issued in 2023 via [Accounting Standards Update No. 2023-08, Accounting for and Disclosure of Crypto Assets](#) (ASU

2023-08). We believe that ASU represented a good first step by the FASB toward establishing crypto-specific US GAAP where logical and appropriate to do so.

- Crypto asset accounting guidance developed by the AICPA – via its Digital Asset Working Group and under the supervision of the AICPA’s Financial Reporting Executive Committee. We believe the non-authoritative crypto asset accounting guidance in [AICPA Practice Aid, Accounting for and auditing of digital assets](#) (the AICPA Digital Assets Guide), is commonly applied in practice for certain areas of crypto asset accounting that US GAAP does not explicitly address.
- SEC Staff Accounting Bulletin (SAB) No. 122 and, prior to its rescission (including for any companies that have not yet adopted SAB 122), SAB No. 121.
- Public remarks of the SEC staff at the 2022 AICPA & CIMA Conference on Recent SEC and PCAOB Developments have resulted in commonly accepted accounting practices for crypto asset loans by lenders.
- We believe a commonly accepted principle exists that an asset’s form as a ‘crypto asset’ (i.e. created, recorded, tracked and traded) on a blockchain does not, in isolation, affect its accounting. For example, this principle asserts that a financial asset should be accounted for in the same way regardless of whether it is in the form of a crypto asset ‘stablecoin’ or has been ‘tokenized’ on a blockchain, and that a license to intellectual property should be accounted for by the seller and the acquirer in the same manner regardless of whether it is conveyed via a traditional contract or via a non-fungible token (NFT).

You also asked whether the Commission should propose additional or specific accounting requirements. In general, we do not believe the Commission needs to propose additional or specific crypto asset accounting requirements. We believe the FASB is best positioned for that task, observing that the FASB’s actions would address the needs of the large body of crypto asset entities that are not subject to the Commission’s rules and interpretations. In the points that follow, we suggest near-term actions the FASB and the SEC staff *could* take that would add to and/or strengthen the body of commonly accepted crypto asset accounting practices.

- The FASB’s efforts to date have focused on select areas of the accounting for those crypto assets, like Bitcoin and Ether, that are not, in substance, merely a tokenized version of a financial or other asset or contract for which US GAAP already exists. The FASB recently launched a new Agenda Consultation ([Invitation to Comment, Agenda Consultation](#)), requesting feedback about its future standard-setting agenda in which it explicitly solicited feedback on how it might continue to address the accounting for crypto assets in the future. We expect to recommend in response that the FASB build upon ASU 2023-08 by (1) developing specific guidance around when entities should derecognize crypto assets and (2) expanding the scope of its existing and any new guidance to include certain types of crypto assets (e.g. ‘receipt tokens’, ‘liquid staking tokens’, ‘wrapped tokens’) that permit their holder to redeem other crypto assets (e.g. Bitcoin, Ether, Solana) already within the scope of the FASB guidance. We believe there is, in general, a consensus that these enhancements to US GAAP would improve the clarity and economic faithfulness of the information investors receive and reduce uncertainty and complexity for entities accounting for crypto assets.
- We believe that the guidance in the AICPA Digital Assets Guide fills an important need in a complicated area as US GAAP continues to develop with respect to crypto assets. We encourage continued involvement of the Commission staff in future updates to the Guide. We believe

Commission staff involvement with and support of – i.e. until or unless US GAAP is further interpreted by FASB – such guidance would help to reduce cost, complexity and uncertainty for companies in or looking to access the US capital markets. We observe that the Commission staff's involvement and support for consensus positions of the FASB's Transition Resource Group for Revenue Recognition (following the issuance in 2014 of new US GAAP revenue guidance) positively affected implementation of the US GAAP revenue recognition guidance and believe the Commission staff could have a similar positive effect in this area.

- While we do not advocate for the Commission staff to, in effect, establish US GAAP in place of the FASB, we believe it is helpful for the staff to timely disseminate information to the public about positions they have taken (e.g. in formal consultations) and to which they generally expect entities to adhere. Such information sharing could enhance consistency and comparability of financial information and reduce costs and complexity of financial statement preparation and compliance, particularly for those entities looking to enter the US capital markets.

Disclosures

We understand that some stakeholders may desire additional information to supplement current information provided in the financial statements in accordance with GAAP. We encourage the task force to work with constituents, including preparers and investors, to understand what information is most useful and continue to collaborate with the FASB on future standard setting that may address those information needs.

Auditing Considerations

We believe that the existing, principles-based auditing standards are generally fit for purpose for audits involving crypto assets. However, given the evolving nature of technology and transactions in this space, open dialogue and collaboration to help align expectations and understanding about the application of those standards would be helpful.

For many established industries, accounts, and disclosures subject to audit, we benefit from many decades of experience across the profession and with relevant regulators that have helped to establish clarity about the application of the auditing standards. Encouraging an environment in which the expectations of auditors are openly discussed and clearly established, especially to the extent the expectations are unique in relation to audits involving crypto assets, would be helpful in accelerating this learning curve.

The characteristics, complexity, and evolving nature of crypto assets present unique auditing challenges, particularly around the nature and/or source(s) of audit evidence that may be available and/or necessary, and the reliability and sufficiency of such information when used as audit evidence.

We acknowledge that the current auditing standards can be applied, including standards addressing the evaluation of the reliability of information used in the audit. However, the profession has continued to discuss a range of views with respect to the appropriate application of those standards to certain facts. Examples of these circumstances include the extent of procedures and evidence that is expected to evaluate information obtained from decentralized blockchains or pricing information from crypto asset exchanges. The SEC fostering an environment where feedback on questions of application of the auditing standards to more fact patterns, including appropriately supported reasonable judgments, can be obtained proactively would benefit the auditing profession and the capital markets.

A meaningful first step would be recognizing that blockchain evidence from established and decentralized Layer 1 blockchains provides reliable audit evidence about balances and transactions that are reflected

on those blockchains. A critical element to such an assertion is recognizing that not all blockchains are created equal. Therefore, clarity through guidance of what constitutes 'established' and 'decentralized' would be helpful, as well as further education about what information can and cannot be sourced from the blockchain. Further, understanding when additional evidence from other sources would be necessary to obtain sufficient appropriate audit evidence for an audit or attestation service would be helpful.

Further, we highlight the continued importance of SOC reports for preparers and auditors to be able to evaluate and rely on the design and operating effectiveness of controls at third-party service organizations (e.g. third-party custodians), particularly over the security and accessibility of private keys. In many cases, substantive procedures alone may not provide sufficient appropriate audit evidence and therefore the ability to evidence effective internal controls is meaningful to supporting the rights and obligations associated with an entity's holdings of crypto assets.

Broker-Dealers, Investment Companies or Asset Managers

When establishing definitions and categories (e.g. asset and/or security 'classes'), collaboration with various stakeholders and participants in the ecosystem (e.g. standard-setters, preparers, auditors) will be important to consider second-order impacts in the application of other regulatory requirements or standards that are likely to be relevant to entities engaged with crypto assets (e.g. custody rule, net capital requirements, accounting standards – scope, etc.) to identify whether they are fit for purpose, and will produce the intended outcome, or whether new practical guidance, standard-setting, or rulemaking may be appropriate.

For example, the applicability of existing guidance for broker-dealers is dependent on the type of asset. Changes (e.g. changes to the definition of a security) may have downstream impacts around the application of existing guidance that is not being changed, such as the application of the net capital rule (17 CFR 240.15c3-1) and whether crypto intangible assets are treated as allowable versus non-allowable assets within the computation of net capital. Other impacts of changes to definitions include the application of possession or control requirements (17 CFR 240.15c3-3) including considerations of 'good control locations' in relation to customer digital wallets, and the applicability of the custody rule, as the commission has acknowledged that certain crypto assets do not meet the definition of a security.

Thank you for considering our comments. We look forward to continued engagement with the SEC's Crypto Task Force and other stakeholders to achieve a balanced approach to regulation that supports innovation while protecting investors.

Sincerely,

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