FASB **EXPOSURE DRAFT**

Proposed Accounting Standards Update

Issued: August 18, 2026
Comments Due: November 19, 2026

Statement of Cash Flows (Topic 230)

Cash Equivalents—Disclosure Enhancement and Evaluation of Certain Digital Assets

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 230 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2026-ED400, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until November 19, 2026. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2026-ED400
- Sending a letter to "Technical Director, File Reference No. 2026-ED400, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

Statement of Cash Flows (Topic 230)

Cash Equivalents—Disclosure Enhancement and Evaluation of Certain Digital Assets

August 18, 2026

Comment Deadline: November 19, 2026

CONTENTS

Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing this proposed Update to (1) clarify whether certain digital assets meet the definition of the term *cash equivalents* (as defined in the Master Glossary) to reduce diversity in practice and (2) increase transparency of the significant components of cash equivalents.

Stakeholders provided feedback in response to the 2025 FASB Invitation to Comment, *Agenda Consultation*, that there is uncertainty about whether certain digital assets, such as stablecoins, meet the definition of the term *cash equivalents*, leading to diversity in practice.

To address that stakeholder feedback, the Board decided to provide illustrative examples to support consistent understanding of whether certain digital assets meet the definition of cash equivalents. In addition, the Board decided to enhance the disclosure requirements for cash equivalents to provide investors and other financial statement users (collectively referred to as "investors") with more transparent information about the significant components of cash equivalents.

Who Would Be Affected by the Amendments in This Proposed Update?

The proposed illustrative examples would apply to all entities that have certain digital assets.

The proposed disclosure requirement would apply to all entities that present assets as cash equivalents, regardless of whether any of those assets are digital assets.

What Are the Main Provisions, How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

Cash equivalents is a defined term in the Master Glossary. An entity is required to have an accounting policy about which short-term, highly liquid assets that meet the definition are presented as cash equivalents.

The amendments in this proposed Update would clarify, through illustrative examples, how the current definition of cash equivalents applies to certain digital assets. The examples illustrate certain attributes that a digital asset that is designed to maintain a stable value relative to a reference asset, such as a fiat currency, would need to meet that current definition including:

1. An on-demand contractual cash redemption right
2. A direct redemption right with the issuer for known amounts of cash
3. Segregated reserve assets held by the issuer on at least a one-to-one basis (relative to the issued and outstanding digital assets in circulation) in short-term, highly liquid assets.

By illustrating how the definition of the term *cash equivalents* may apply to certain digital assets, the guidance would (1) promote consistent and comparable presentation in financial statements among entities that elect to present certain digital assets as cash equivalents and (2) provide investors with more decision-useful information. In addition, the guidance also would assist entities when applying judgment about whether certain digital assets may meet the definition of cash equivalents. The amendments in this proposed Update would not revise the Master Glossary definition of the term *cash equivalents.*

The amendments in this proposed Update would require an entity that presents qualifying assets as cash equivalents to disclose, in annual reporting periods, the significant components (for example, U.S. Treasury bills, commercial paper, stablecoins, and money market funds) and related amounts of cash equivalents (regardless of whether any of those assets are digital assets). This proposed disclosure would better align with a similar disclosure requirement under IFRS Accounting Standards, increase transparency, and enhance an investor’s ability to assess asset classes that an entity presents as cash equivalents.

What Are the Transition Requirements and When Would the Amendments Be Effective?

An entity would be required to apply the amendments in this proposed Update related to the illustrative examples (paragraphs 230-10-55-22 through 55-28) on a modified prospective basis, as of the beginning of the annual reporting period that includes the period of adoption. The proposed amendments would apply to any digital assets affected by paragraphs 230-10-55-22 through 55-28 that are held as of the date of initial application. In each interim reporting period (if applicable) and the annual reporting period during the annual year of adoption, an entity would be required to present in its statement of cash flows or within its transition disclosures a reconciliation of the opening balance of cash, cash equivalents, restricted cash, and restricted cash equivalents before and after adoption to reflect the effect of applying paragraphs 230-10-55-22 through 55-28.

An entity would be required to apply the amendments in this proposed Update that require disclosure of the significant components and related amounts of cash equivalents on a prospective basis as of the end of the annual reporting period in which the entity first applies the proposed amendments.

The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update. Early adoption would be permitted in interim and annual reporting periods in which financial statements have not been issued or made available for issuance (see paragraph 230-10-65-4(b) for further discussion).

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Illustrative Examples

Question 1: Are the proposed illustrative examples clear and operable and would they clarify the application of the Master Glossary definition of the term *cash equivalents* to digital assets? If not, why not, and what additional guidance would be needed and why? Do you anticipate any auditing challenges? Please explain.

Question 2: Do you agree that the amendments in this proposed Update should clarify that an entity should take into account relevant laws and regulations (for example, the Guiding and Establishing National Innovation for U.S. Stablecoins [GENIUS] Act) when establishing its cash equivalents accounting policy? Please explain, including whether that clarification is necessary, clear, operable, and auditable.

Disclosure

Question 3: Would the proposed annual disclosure requirement provide decision-useful information for investors? Please explain, including how and in what circumstances the disclosure would influence capital allocation decisions. If the proposed disclosure would not provide decision-useful information, please explain why and what additional information, if any, would be necessary for making capital allocation decisions. For example, should an entity instead be required to disclose the name and amount of each significant stablecoin holding presented as cash equivalents? If so, should the term *stablecoin* be defined and, if so, how? Should those disclosures be limited to stablecoins presented as cash equivalents or applied more broadly to other assets presented as cash equivalents, such as money market funds? Please explain why or why not. In your response, please consider the decision usefulness, operability, auditability, and costs of an alternative disclosure compared with the proposed disclosure.

Question 4: Is the proposed annual disclosure requirement clear and operable? Do you anticipate any auditing challenges? Please explain.

Transition

Question 5: Are the proposed transition requirements clear and operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures provide decision-useful information? Please explain.

Effective Date

Question 6: Regarding the effective date, how much time would be needed to implement the amendments in this proposed Update? Should the effective date for entities other than public business entities be different from the effective date for public business entities? If the effective dates should be different, how much additional time would entities other than public business entities need to implement the proposed amendments? Please explain.

Benefits and Costs

Question 7: Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe why not.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2 and 3. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 230-10

2. Add paragraphs 230-10-50-1A and its related heading, 230-10-55-6A, and 230-10-55-22 through 55-28 and their related headings and amend paragraphs 230-10-55-5, 230-10-55-12, and 230-10-55-18, with a link to transition paragraph 230-10-65-4, as follows:

[Note: The definition of cash equivalents is shown for convenience.]

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

a. Readily convertible to known amounts of cash
b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

Statement of Cash Flows—Overall

Other Presentation Matters

> Form and Content

• > Cash and Cash Equivalents

230-10-45-6 Not all investments that qualify are required to be treated as cash equivalents. An entity shall establish a policy concerning which short-term, highly liquid investments that satisfy the definition of cash equivalents are treated as cash equivalents. For example, an entity having banking operations might decide that all investments that qualify except for those purchased for its trading account will be treated as cash equivalents, while an entity whose operations consist largely of investing in short-term, highly liquid investments might decide that all those items will be treated as investments rather than cash equivalents.

Disclosure

> Cash Equivalents Policy

230-10-50-1 An entity shall disclose its policy for determining which items are treated as **cash equivalents**. Any change to that policy is a change in accounting principle that shall be effected by restating financial statements for earlier years presented for comparative purposes.

• > Significant Components of Cash Equivalents

230-10-50-1A In annual reporting periods, an entity shall disclose the significant components (for example, U.S. Treasury bills, commercial paper, stablecoins, and money market funds) and related amounts of each component that it presents as cash equivalents in accordance with paragraph 230-10-45-6.

Implementation Guidance and Illustrations

> Illustrations

230-10-55-5 ~~The Examples~~ Example 1 below ~~provide~~ provides illustrations for the preparation of statements of cash flows of business entities.

230-10-55-6 Section 958-205-55 provides illustrations for the preparation of statements of cash flows for a not-for-profit entity (NFP).

230-10-55-6A Example 2 below provides illustrations for evaluating whether certain digital assets meet the definition of **cash equivalents**.

• > Example 1: Direct and Indirect Method for a Manufacturing Entity

230-10-55-12 In accordance with paragraph 230-10-50-1, the ~~The~~ disclosure of accounting policy is as follows.

> For purposes of the statement of cash flows, the entity considers all highly liquid debt instruments purchased with a maturity of three months or less to be **{remove glossary link}cash equivalents{remove glossary link}**.

230-10-55-18 In accordance with paragraph 230-10-50-1, the ~~The~~ disclosure of accounting policy is as follows.

> For purposes of the statement of cash flows, the entity ~~Entity~~ considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

• > Example 2: Evaluation of Certain Digital Assets

230-10-55-22 In Example 2, an entity should take into account relevant laws and regulations (for example, laws and regulations that prohibit treating certain assets as cash equivalents) when establishing its cash equivalents accounting policy in accordance with paragraph 230-10-45-6.

• • > Case A: Meet the Definition of Cash Equivalents

230-10-55-23 Issuer C is the issuer of Digital Asset B, which is a stablecoin designed to maintain a value of $1 per unit. Issuer C maintains reserve assets in a segregated account relating to Digital Asset B on at least a one-to-one basis (relative to the issued and outstanding units in circulation) in cash and U.S. Treasury bills with original maturities of three months or less. Entity A holds 100 units of Digital Asset B and maintains an account with Issuer C that provides it with a contractual right to redeem its units of Digital Asset B on demand (with no significant fees or significant restrictions imposed) for $1 per unit directly from Issuer C.

230-10-55-24 The 100 units of Digital Asset B are short-term, highly liquid items that meet the definition of cash equivalents as follows:

a. The units are readily convertible to known amounts of cash because Entity A has an on-demand redemption right for $1 per unit directly from the issuer.
b. The units are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates for the following reasons:
   1. Entity A has the contractual right to redeem its units of Digital Asset B on demand for $1 per unit.
   2. Issuer C maintains reserve assets in a segregated account relating to Digital Asset B on at least a one-to-one basis (relative to the issued and outstanding units in circulation), and those reserve assets consist of cash and U.S. Treasury bills with original maturities of three months or less.

• • > Case B: Redemption Right

230-10-55-25 Assume similar facts as Case A; however, in Case B, Entity A does not maintain an account with Issuer C, and Entity A does not have a contractual right to redeem directly from Issuer C. There are active secondary markets where Entity A expects that it will be able to sell its 100 units of Digital Asset B for approximately $1 per unit.

230-10-55-26 The units are not readily convertible to known amounts of cash because Entity A does not have an on-demand contractual right to redeem directly from Issuer C for a known amount of cash. Therefore, Entity A determines that the units of Digital Asset B do not meet the definition of cash equivalents.

• • > Case C: Nature of Reserve Assets

230-10-55-27 Assume similar facts as Case A; however, in Case C, Issuer C maintains reserve assets in the form of crypto assets within the scope of Subtopic 350-60 and gold in a segregated account relating to Digital Asset B on a one-to-one basis (relative to the issued and outstanding units in circulation).

230-10-55-28 The value of the reserve assets (crypto assets within the scope of Subtopic 350-60 and gold) maintained by Issuer C related to Digital Asset B may change for reasons other than changes in interest rates, and those reserve assets present a more than insignificant risk of changes in value. The 100 units of Digital Asset B do not meet the definition of cash equivalents because of the nature of the reserve assets.

3. Add paragraphs 230-10-65-4 and its related heading, as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Statement of Cash Flows (Topic 230): Cash Equivalents—Disclosure Enhancement and Evaluation of Certain Digital Assets*

230-10-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Statement of Cash Flows (Topic 230): Cash Equivalents—Disclosure Enhancement and Evaluation of Certain Digital Assets:*

Effective date and early adoption

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure], including interim reporting periods within those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted in interim or annual reporting periods in which financial statements have not been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, the entity shall apply the pending content as follows:
    1. For paragraph 230-10-50-1A, as of the end of the interim reporting period in which the entity adopts the pending content.
    2. For paragraphs 230-10-55-22 through 55-28, as of the beginning of the annual reporting period that includes the interim reporting period in which the entity adopts the pending content.

Transition methods

c. An entity shall apply the pending content of paragraph 230-10-50-1A that links to this paragraph on a prospective basis, as of the end of the annual reporting period in which the entity first applies the pending content.

d. An entity shall apply the pending content of paragraphs 230-10-55-22 through 55-28 that links to this paragraph on a modified prospective basis, as follows:

    1. An entity shall apply the pending content that links to this paragraph as of the beginning of the annual reporting period in which the pending content is adopted. The pending content that links to this paragraph shall apply to any digital assets affected by paragraphs 230-10-55-22 through 55-28 that are held as of the date of initial application. The pending content that links to this paragraph does not require that an entity present a digital asset as a cash equivalent. An entity shall establish a policy concerning which digital assets that meet the definition of cash equivalents are presented as cash equivalents.
    2. In each interim reporting period (if applicable) and the annual reporting period during the annual year of adoption, an entity shall present in its statement of cash flows or within its transition disclosures a reconciliation of the opening balance of cash, cash equivalents, restricted cash, and restricted cash equivalents before and after adoption to reflect the effect of applying paragraphs 230-10-55-22 through 55-28.

Transition disclosures

e. An entity that applies the pending content that links to this paragraph shall disclose the nature of and reason for the change in accounting principle in both the interim reporting period (if applicable) and the annual reporting period of the change.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph
Catherine M. Shakespeare

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The objective of the amendments in this proposed Update is to (a) clarify whether certain digital assets meet the definition of the term *cash equivalents* (as defined in the Master Glossary) to reduce diversity in practice and (b) increase transparency of the significant components of cash equivalents.

BC3. The amendments in this proposed Update would clarify, through illustrative examples, how the current definition of cash equivalents applies to certain digital assets. Additionally, the proposed amendments would require an entity that presents qualifying assets as cash equivalents to disclose, in annual reporting periods, the significant components (for example, U.S. Treasury bills, commercial paper, stablecoins, and money market funds) and related amounts of cash equivalents (regardless of whether any of those assets are digital assets).

Background Information

BC4. When deciding to add a project to its agenda, the Board considered stakeholder feedback from the 2025 FASB Invitation to Comment, *Agenda Consultation*, accounting recommendations released in the report issued by the President's Working Group on Digital Asset Markets, and the regulatory framework for payment stablecoins described in the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act.

BC5. Stakeholder feedback indicated that stablecoins, which are a type of digital asset designed to maintain a stable value relative to a reference asset, such as a fiat currency, have become a critical component of the digital asset ecosystem. Many stablecoins are backed by fiat currencies held by their issuers and convey rights to cash or other assets.

BC6. Stakeholders noted that some entities concluded that certain stablecoins meet the definition of cash equivalents, while other entities concluded that they do not, which could create diversity in practice and additional costs for preparers to evaluate their accounting treatment. Therefore, some stakeholders suggested that the Board clarify how to apply the current cash equivalents definition to this emerging asset class. In addition, investors noted that there is a need to understand when stablecoins are presented as cash equivalents, indicating a need for greater transparency through enhanced disclosures.

Benefits and Costs

BC7. The objective of financial reporting is to provide information that is useful to both present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC8. On the basis of stakeholder feedback, the Board decided that the amendments in this proposed Update would address potential diversity in practice and provide investors with more consistent and more decision-useful information as compared with current GAAP. In particular, the proposed amendments would clarify how the definition of cash equivalents applies to certain digital assets, such as stablecoins. That clarification could provide a more relevant and faithful representation of cash flow activity and greater comparability in financial reporting among entities that elect to present certain qualifying digital assets, such as stablecoins, as cash equivalents. Additionally, the Board decided that the proposed disclosure requirement would provide investors with greater transparency about the types of assets that an entity presents as cash equivalents.

BC9. The Board expects that the amendments in this proposed Update would not result in significant incremental costs for entities that already present certain stablecoins as cash equivalents. The proposed amendments would clarify, through illustrative examples, how the current cash equivalents definition applies to certain digital assets and, therefore, would not change the current cash equivalents definition. The Board noted that because the proposed amendments include illustrative examples and presenting assets that meet the definition as cash equivalents is an accounting policy election, entities would not be expected to incur significant incremental costs as a result of the proposed amendments.

BC10. Additionally, if an entity does not elect to present certain stablecoins as cash equivalents but nevertheless utilizes those stablecoins to transfer value for operational purposes, the entity generally would have to separately track stablecoin transactions to prepare the statement of cash flows or disclose required noncash activities. As a result, the Board expects that the inclusion of illustrative examples to clarify that certain digital assets may qualify as cash equivalents could reduce costs and complexities for preparers and practitioners.

BC11. The Board acknowledged that the proposed disclosure of the significant components and related amounts of cash equivalents could result in incremental costs for preparers. The disclosure would be required for all entities that present qualifying assets as cash equivalents. Because the information needed to provide that disclosure should be readily available, the Board expects that those costs will not be significant. The Board expects that the proposed disclosure would better align with a similar disclosure requirement under IFRS Accounting Standards, increase transparency, and enhance an investor's ability to assess asset classes that an entity presents as cash equivalents.

BC12. Therefore, the Board decided that the expected benefits of the amendments in this proposed Update would justify the expected costs.

Basis for Conclusions

Illustrative Examples

BC13. The Board considered various approaches to respond to stakeholder feedback, including (a) revising the current definition of the term *cash equivalents* to address certain digital assets, (b) defining a new Master Glossary term that would apply only to digital asset cash equivalents, or (c) providing illustrative examples. Stakeholder feedback indicated that the current definition continues to be appropriate and that providing illustrative examples would best balance risks of unintended consequences with the objectives of this project.

BC14. The Board observed that the current definition of cash equivalents is intentionally narrow and, therefore, not all stablecoins would qualify as cash equivalents. The Board also observed that the current definition is well understood in practice. Accordingly, the Board concluded that revising the definition was unnecessary and could increase the risk of unintended consequences. Instead, the Board observed that providing illustrative examples would help entities apply the current definition of cash equivalents to digital assets without the need to change the analysis for other assets.

Key Attributes of a Digital Asset to Meet the Cash Equivalents Definition

BC15. The Board considered certain key attributes that a digital asset designed to maintain a stable value relative to a reference asset, such as a fiat currency, would need to meet the current definition of the term *cash equivalents.* The characteristics of the definition of that term are inherently interrelated and while the proposed amendments illustrate each characteristic by linking it to a particular attribute of the asset, an entity should evaluate the characteristics collectively when determining whether an asset meets the definition of cash equivalents. The Board decided to illustrate the following attributes:

a. An on-demand contractual cash redemption right
b. A direct redemption right with the issuer for known amounts of cash

c. Segregated reserve assets held by the issuer on at least a one-to-one basis (relative to the issued and outstanding digital assets in circulation) in short-term, highly liquid assets.

BC16. Additionally, the Board decided to clarify that an entity should take into account relevant laws and regulations when establishing its cash equivalents policy, as discussed further in paragraph BC23.

On-Demand Contractual Cash Redemption Right

BC17. The Board observed that stablecoins do not have stated maturities but that a direct on-demand redemption right is equivalent to immediate maturity. The Board also noted that illustrating that qualifying stablecoins must be redeemable on demand (with no significant fees or significant restrictions imposed) would clarify how those assets meet the "so near their maturity that they present insignificant risk of changes in value because of changes in interest rates" and the "readily convertible to known amounts of cash" attributes of the definition of cash equivalents. The illustrative examples in the amendments in this proposed Update would not provide guidance on what constitutes an on-demand redemption. However, stakeholders indicated that an on-demand redemption is generally understood as a redemption that occurs within normal processing time and without undue delay.

Direct Redemption Right with the Issuer

BC18. The Board observed that direct on-demand contractual cash redemption rights are an important differentiator between digital assets that are readily convertible to known amounts of cash, and digital assets that are more speculative in nature. Some stakeholders noted that the definition of cash equivalents requires that a qualifying asset be "readily convertible to known amounts of cash" and does not explicitly restrict qualification to assets that provide the holder with a direct contractual right to cash. Most stakeholders indicated that, in practice, a contractual right to redeem—rather than just the ability to sell the asset—is a key attribute for an asset to qualify as a cash equivalent.

BC19. The Board considered whether redemption rights that are exercisable through an entity other than the issuer entity that maintains the underlying reserve assets (that is, indirect redemption rights) may be sufficient to meet the "readily convertible to known amounts of cash" attribute of the cash equivalents definition. The Board observed that while indirect redemption rights obtained through intermediaries may represent a chain of contractual relationships that may ultimately lead to a right to cash from the issuer, those indirect rights introduce additional counterparty credit risk that make the holder's ability to readily convert the digital asset for a known amount of cash less direct and less certain. Therefore, the Board decided that it was important to include an illustrative example in which the stablecoin holder has a direct cash redemption right to redeem.

Nature of Reserve Assets

BC20. The Board observed that, in practice, assessing certain assets commonly considered cash equivalents (for example, money market funds) involves understanding the nature and liquidity of the portfolio of assets underlying the fund, even though the definition of cash equivalents itself does not prescribe specific reserve requirements. Therefore, the Board decided to illustrate the nature of reserve assets held by the issuer of qualifying stablecoins; however, the Board does not intend for those illustrative examples to provide an exhaustive list of permissible reserve assets, and entities would be expected to apply judgment to their specific facts and circumstances. The Board decided to illustrate that maintaining reserves on at least a one-to-one basis (relative to the issued and outstanding digital assets in circulation) in short-term, highly liquid assets is an important attribute in meeting the "so near their maturity that they present insignificant risk of changes in value because of changes in interest rates" attribute in the definition of cash equivalents. However, the Board observed that, like money market funds that do not have stated maturities, changes in interest rates may not be the only factor that could affect whether stablecoins are so near their maturity that they present insignificant risk of changes in value.

BC21. Stakeholders noted that there are a variety of mechanisms for digital assets to maintain a stable value relative to a reference asset, such as a fiat currency. For example, some stablecoins are fully collateralized by highly liquid assets like cash and short-term U.S Treasury bills, while others are not. Stakeholders observed that a stablecoin's ability to be readily redeemed for a known amount of cash is supported not only by the stated redemption terms (that is, on-demand redemption rights directly with the issuer with no significant fees or significant restrictions imposed) but also by the issuer maintaining segregated and liquid reserves that are sufficient to meet cash redemption requests in ordinary and stress scenarios. Accordingly, most stakeholders emphasized that to qualify as a cash equivalent, it is important that the reserve assets (a) are maintained on at least a one-to-one basis (relative to the issued and outstanding digital assets in circulation) and (b) are held in short-term, highly liquid assets. Stakeholders commonly described those reserves as comprising primarily cash and short-term, highly liquid assets like those traditionally considered cash equivalents (for example, U.S. Treasury bills with original maturities of three months or less).

BC22. With respect to the amount and composition of reserves deemed sufficient, the Board decided that because the definition of cash equivalents is intended to be a high threshold, an issuer of a qualifying digital asset should maintain reserves on at least a one-to-one basis (relative to the issued and outstanding digital assets in circulation) in short-term, highly liquid assets. The Board understands that an issuer may hold excess reserves that include other types of assets and noted that this "overcollateralization" would not automatically disqualify the asset from meeting the definition of cash equivalents; however, for purposes of determining whether a stablecoin is collateralized on at least a one-to-one basis (relative to the issued and outstanding digital assets in circulation), only reserve assets that are short-term and highly liquid would be considered in that assessment. The Board also acknowledged that to determine whether digital assets meet the definition of cash equivalents, an entity would need sufficient information to evaluate the key attributes of the digital asset, including the amount and composition of reserve assets held by the issuer.

Relevant Laws and Regulations

BC23. The Board observed that a key objective of this project is to clarify whether certain digital assets may meet the definition of cash equivalents, rather than to determine whether an entity is permitted to elect an accounting policy to present those assets as such. The Board also observed that because of the evolving legislative and regulatory landscape for digital assets in the United States (for example, the GENIUS Act) and other jurisdictions, laws and regulations may affect whether certain digital assets may be presented as cash equivalents. Consistent with current guidance, an entity would continue to make an accounting policy election when determining whether to present qualifying assets as cash equivalents. Accordingly, the amendments in this proposed Update would clarify that an entity should take into account relevant laws and regulations when establishing its cash equivalents accounting policy. Some stakeholders expressed concerns that referencing the need to take into account laws and regulations within GAAP could be interpreted as requiring additional audit procedures, such as obtaining legal opinions, thereby increasing the cost and complexity of applying the proposed amendments. The Board acknowledged those concerns and observed that considering the implications of relevant laws and regulations is generally assumed. Therefore, the Board does not intend that the application of the proposed amendments would require that an entity obtain a legal opinion.

Disclosure

BC24. The amendments in this proposed Update would require that an entity disclose in annual reporting periods the significant components and related amounts of each component presented as cash equivalents. The proposed disclosure requirement would apply only if an entity elects to present assets as cash equivalents, regardless of whether any of those assets are digital assets. Accordingly, if an entity has not elected to present any assets as cash equivalents, it would not be subject to the proposed disclosure requirement. An entity should provide the proposed disclosure requirements for each statement of financial position presented in the financial statements except in the initial period of adoption (see paragraph 230-10-65-4).

BC25. Investors and other stakeholders indicated that additional information about stablecoins is needed because it is relevant to an investor's assessment of an entity's liquidity and management of cash and cash equivalents. Although Topic 230 requires that an entity disclose its accounting policy for which assets it elects to present as cash equivalents, the entity is not required to include quantitative information about the significant components of cash equivalents. Therefore, the Board decided that requiring disclosure of those significant components and related amounts would provide investors with more transparent and decision-useful information about the assets presented as cash equivalents. The Board decided to allow entities to use appropriate judgment to determine their significant components. Using the term *significant components* is consistent with other GAAP requirements and is not further defined in the amendments in this proposed Update.

BC26. Some stakeholders and some Board members stated that the current disclosure requirements are sufficient to provide investors with decision-useful information about the composition of an entity's cash equivalents. For example, an entity with material holdings of stablecoins may be subject to other current disclosure requirements, such as (a) the fair value amount and level within the fair value hierarchy in accordance with Topic 820, Fair Value Measurement, and (b) the concentration of credit risk for financial instruments in accordance with Topic 825, Financial Instruments.

BC27. The Board considered a stablecoin-specific disclosure requirement, which would have required that an entity disclose the name and amount of each significant stablecoin holding presented as cash equivalents. The Board acknowledged that to make this disclosure requirement operable, the amendments in this proposed Update would likely need to define the term *stablecoin*. Many Board members did not support defining the term *stablecoin* for disclosure purposes because the Board had already decided not to define that term in clarifying how the definition of cash equivalents applies to stablecoins. Accordingly, the Board ultimately concluded that any new disclosure requirement should apply to cash equivalents more broadly, to balance transparency, operability, and responsiveness to evolving market practices.

BC28. Furthermore, the Board considered the disclosure requirement under International Accounting Standards (IAS) 7, *Statement of Cash Flows*, which requires that an entity disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position. However, the Board decided that, unlike IAS 7, the proposed disclosure would not require that an entity (a) disclose the components of cash or (b) provide a reconciliation to the statement of financial position. The Board notes that the proposed disclosure is better aligned with, although not identical to, IAS 7.

Effective Date, Transition, and Early Adoption

Effective Date

BC29. The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update.

Transition—Illustrative Examples

BC30. The Board decided that an entity would be required to apply the amendments in this proposed Update related to the illustrative examples (paragraphs 230-10-55-22 through 55-28) on a modified prospective basis, as of the beginning of the annual reporting period that includes the period of adoption. The proposed amendments would apply to any digital assets affected by paragraphs 230-10-55-22 through 55-28 that are held as of the date of initial application. The proposed amendments would not require that an entity present a digital asset as a cash equivalent. An entity should establish a policy concerning which digital assets that meet the definition of cash equivalents are presented as cash equivalents.

BC31. The Board considered a retrospective transition approach. However, considering that investors perform liquidity analyses using a forward-looking approach, the Board decided that the expected costs of permitting or requiring a retrospective transition approach would not justify the expected benefits. Additionally, the Board noted that requiring all entities to adopt the proposed amendments on the same transition basis would provide investors with the most consistent information.

BC32. Because changes to the amount of an entity's cash equivalents would affect the presentation of beginning cash, cash equivalents, restricted cash balances, and restricted cash equivalents in the statement of cash flows, the Board decided to require that an entity disclose the effect of adoption. The Board decided in each interim reporting period (if applicable) and the annual reporting period during the annual year of adoption, an entity would be required to present in its statement of cash flows or within its transition disclosures a reconciliation of the opening balance of cash, cash equivalents, restricted cash balances, and restricted cash equivalents before and after adoption to reflect the effect of applying paragraphs 230-10-55-22 through 55-28.

BC33. Under Topic 250, Accounting Changes and Error Corrections, a change in an accounting principle as a result of a change in a newly issued Codification Update does not require a preferability assessment. The Board does not intend that an entity that adopts the amendments related to the illustrative examples would need to perform a preferability assessment. That relief would apply only at adoption to digital assets affected by the illustrative examples and would not extend to other cash equivalent accounting policy elections, such as those for U.S. Treasury bills or money market funds.

Transition—Disclosure Requirement

BC34. The Board decided that the amendments in this proposed Update that require that an entity disclose the significant components and related amounts of each component presented as cash equivalents would be required to be applied on a prospective basis as of the end of the annual reporting period in which the entity first applies the proposed amendments.

Transition Disclosures

BC35. The Board decided to require an entity that applies the amendments in this proposed Update to disclose the nature of and reason for the change in accounting principle, in accordance with paragraph 250-10-50-1(a), in both the interim reporting period (if applicable) and the annual reporting period of the change.

Early Adoption

BC36. The Board decided to permit early adoption in interim and annual reporting periods in which financial statements have not been issued or made available for issuance. If an entity early adopts the amendments in this proposed Update in an interim reporting period, the entity would be required to apply the amendments as follows:

a. For disclosure of the significant components and related amounts of cash equivalents, as of the end of the interim reporting period in which the entity applies the proposed amendments
b. For the illustrative examples, as of the beginning of the annual reporting period that includes that interim reporting period.

BC37. The Board decided to allow early adoption because (a) it would improve the financial reporting relevance and faithful representation of certain digital assets and could increase comparability among entities that elect to present certain digital assets as cash equivalents and (b) it would provide transparency about stablecoins included within an entity's cash equivalents if they are determined to be significant.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.