

The Statement of Digital Assets

Bridging GAAP: A New Standard for Reporting On-Chain Assets

Update: August 2024

Statement of Digital Assets Public Benefit Collaboration

The number of 'crypto native' and traditional businesses that transact with digital assets has seen unprecedented growth in recent years. This adoption of a new asset class has necessitated an increased focus on accounting for tax reporting and operations management purposes; however IRS and FASB rules continue to evolve, and the systems required to convert on-chain activity to the general ledger are developing in lockstep to the blockchains they monitor. The ultimate goal of the Statement of Digital Assets (SoDA) is to provide a lasting and transparent bridge between accurate GAAP reporting of digital assets and the details from multiple wallets, centralized exchanges, and other cryptographically-based ownership and/or custody arrangements. We started with the balance sheet because of a treasury's importance to crypto-native businesses, however further exploration into other areas may follow. The following is a public benefit collaboration intended to open source a best practice that has been deployed among numerous projects with the goal of contributing to "crypto's GAAP accounting moment."¹

This collaboration was made possible by the ethos of the crypto industry to support one another and contribute time towards a public benefit that will serve as a rising tide that will lift all boats. There are numerous crypto professionals who have contributed their time and without their help this white paper would not have been possible.

This paper is structured as a narrative, but most sections can be read independently depending on the reader's focus. In sequential order we will cover: the macro case for SoDA and its relevance; SoDA's core benefits; SoDA's origins and the state of crypto accounting; real world SoDA use cases; and finally additional considerations including how SoDA is constructed.

Finally, please note the following contains general information only and is not rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. It is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your organization. Before making any decision or taking any action that may affect your organization, you should consult a qualified professional advisor.

¹ As described in Messari's 2022 Theses report.

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Call to Action - Endorse SoDA as a Best Practice!

The Statement of Digital Assets (SoDA) was developed as a reporting tool to facilitate the understanding of digital assets through a GAAP lens. If you think this is a sound approach we would greatly appreciate your support in the form of an endorsement. By endorsing SoDA, you contribute to the adoption of a standardized approach that enhances transparency, accuracy, and trust in financial reporting for Web3 and crypto businesses.

We believe that this approach represents a meaningful step forward in establishing a standardized framework for GAAP-compliant reporting of digital assets. As we strive to create a lasting and transparent bridge between traditional financial reporting and the dynamic world of blockchain and digital assets, the role of industry leaders in endorsing and promoting SoDA as a best practice is crucial.

We invite CFOs, controllers, finance and accounting professionals, and other experts who work with Web3 and crypto businesses to join us in this collaborative effort. Your endorsement of SoDA will not only validate its importance but also help in its broader adoption across the industry.

How to Endorse SoDA

If you believe in the importance of standardized digital asset reporting and would like to endorse the use of the SoDA methodology as a best practice, please visit our website and submit your endorsement.

sodafinance.xyz

You will be asked to provide your name, title, company, and email address through our endorsement form.

What Happens Next...

All endorsements will be reviewed and identities confirmed. Approved endorsers' name, title and company may appear on the SoDA website and in forthcoming editions of this whitepaper, helping to build a community of leaders who are shaping the future of digital asset accounting.

By endorsing SoDA, you are joining a growing network of professionals committed to advancing transparency, accuracy, and best practices in the rapidly evolving landscape of digital assets. We thank you for your support and look forward to working together to elevate the standards of our industry.

Thank you!

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I. Executive Summary

The Statement of Digital Assets is a standardized report that clarifies an organization's digital asset holdings, providing a bridge between Generally Accepted Accounting Principles (GAAP) based balance sheet reporting and the value represented on-chain. SoDA provides detailed support to the digital asset balance sheet entries by listing every wallet and asset combination (Wallet/Asset Pair) along with business use or purpose. Fair market value is also calculated to provide a more rational sense of liquidity. Taken with a company's fiat holdings and select other assets, SoDA attempts to present a complete picture of a company's digital asset liquidity.

The ultimate goal of SoDA is to provide a lasting and transparent bridge between accurate GAAP reporting of digital assets and the details from multiple wallets, centralized exchanges, and other cryptographically-based ownership and/or custody arrangements. The first use case was delivering a full liquidity picture for managers of and investors in growth stage businesses with digital assets on their balance sheet. Additional beneficiaries now include auditors, tax planners, regulators, analysts, and many more direct and indirect stakeholders.

A balance sheet exists to report what a business owns (assets), what it owes (liabilities) and what the ownership or equity in the business is. GAAP is the financial reporting language of business in the United States, unfortunately existing reporting standards for businesses interacting with digital assets can make the balance sheet opaque. Current GAAP reporting for recording digital assets "breaks" several core purposes of a balance sheet – primarily understanding and assessing liquidity. The balance sheet should tell the complete financial story for an entity but unfortunately for those that hold and transact in digital assets, it does not.

Crypto per GAAP

ASSETS		EDM, 2021
Current assets		
Cash and cash equivalents	\$	xx,000
Marketable securities		xx,000
Accounts receivable, net		xx,000
Vendor non-trade receivables		xx,000
Inventories		xx,000
Digital assets		xx,000
Total current assets		xx,000
Non-current assets		
Marketable securities		xx,000
Property, plant and equipment, net		xx,000
Other non-current assets		xx,000
Total non-current assets		xx,000
Total assets		xx,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$	xx,000
Other current liabilities		xx,000
Deferred revenue		xx,000
Commercial paper		xx,000
Term debt		xx,000
Total current liabilities		xx,000
Non-current liabilities:		
Term debt		xx,000
Other non-current liabilities		xx,000
Total non-current liabilities		xx,000
Total liabilities		xx,000
Commitments and contingencies		
Shareholders' equity		
Common stock		xx,000
Retained earnings		xx,000
Accumulated other income/(loss)		xx,000
Total shareholders' equity		xx,000
Total liabilities and shareholders' equity		xx,000

- Opaque Visibility*
- Underlying Assets
 - Asset Quantity
 - Native Token Liquidity
 - Stable Coins
 - Fair Market Value (sort of)
- + more...

Onchain Holdings

Self Hosted and Third Party Custody Wallets

```

XXXXXXXXXXXXXXXXXXXX4701
XXXXXXXXXXXXXXXXXXXX1517
XXXXXXXXXXXXXXXXXXXX8367
XXXXXXXXXXXXXXXXXXXX4979
XXXXXXXXXXXXXXXXXXXX1408
XXXXXXXXXXXXXXXXXXXX5467
XXXXXXXXXXXXXXXXXXXX4892
XXXXXXXXXXXXXXXXXXXX1665
XXXXXXXXXXXXXXXXXXXX7172
XXXXXXXXXXXXXXXXXXXX5556
XXXXXXXXXXXXXXXXXXXX1067
XXXXXXXXXXXXXXXXXXXX4999
XXXXXXXXXXXXXXXXXXXX1648
XXXXXXXXXXXXXXXXXXXX7441
XXXXXXXXXXXXXXXXXXXX5275
XXXXXXXXXXXXXXXXXXXX3668
XXXXXXXXXXXXXXXXXXXX8518
XXXXXXXXXXXXXXXXXXXX7130
XXXXXXXXXXXXXXXXXXXX3599
  
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Recent FASB guidance² requires fair market value reporting of select digital assets, however the new rules are not complete as NFTs (non-fungible tokens), native tokens (tokens created or issued by the reporting entity), select tokens representing real world assets (RWAs), and wrapped tokens are

²FASB Accounting Standards Update No 2023-08, December 2023. Accounting for and Disclosure of Crypto Assets (Subtopic 350-60).

excluded³. These excluded digital assets continue to be defined as indefinite-lived intangible assets that necessitates the valuation at the lower of cost or impaired value (“LOCOM” or “BV”) and can only be marked down, never marked to market. This range of treatments complicates balance sheet reporting, by reporting significantly different valuation methodologies alongside one another. Further complicating matters is the balance sheet reporting of stablecoins, essentially adding a third distinct type of digital asset that should be broken out in the same context. This is essentially comparing Apples (crypto @ FV) vs. Oranges (crypto @ LOCOM) vs. Bananas (stablecoins).

ASSETS:		EOM, 202X
Current assets:		
Cash and cash equivalents	\$	xx,xxx
Marketable securities		xx,xxx
Accounts receivable, net		
Vendor non-trade receivables		xx,xxx
Inventories		
Digital assets		
DA Fair value		xxx
DA Book value (impaired)		xxx
DA Stablecoins		xxx
Total digital assets		
Total current assets		
Non-current assets:		
Marketable securities		
Property, plant and equipment, net		xx,xxx
Other non-current assets		xx,xxx
Total non-current assets		xx,xxx
Total assets	\$	xx,xxx

While not mandated by GAAP, the separation of stablecoins on a balance sheet chart of account provides clarity of a ‘cashlike’ instrument. Via legislation more guidance on stablecoin reporting will be possible.

At the highest level, this challenges the operation of digital asset-based businesses as questions persist regarding operating runway, tax liability, and fully understanding a companies’ digital asset treasury. It also makes it difficult to assess, and nearly impossible to report, a firm’s true liquidity to analysts, investors, regulators, and auditors. By reporting at the wallet/asset level and providing the corresponding FV and LOCOM, SoDA provides all the backup for the digital asset balance sheet entries and in addition to providing better visibility into the aforementioned operating metrics.

Further complicating matters, the process of calculating GAAP-compliant crypto reporting is a non-trivial task and relies heavily on crypto subledger technology. These software platforms translate on-chain activity into journal entries for revenue, cost of sales, expenses and any associated realized gains/losses. Additionally, they support the balance sheet crypto entries of both assets and liabilities.

³The accounting rules of an asset does not change just because it is represented by a token.

SoDA: The Statement of Digital Assets serves as a bridge between on-chain holdings and GAAP reporting. Core primitives include tracking of Wallet/Asset Pairs and user assigned Roles.

Per GAAP, businesses are now required to report certain digital assets at Fair Value and others at LOCOM. While this reporting is GAAP compliant, there is still needed progress to fully interpret the impact of digital assets on the balance sheet – whether that be business owners, investors, business partners, regulators, and professional service partners.

For reasons detailed below, GAAP reporting does not reflect the full nature and value in a portfolio of digital assets including factors that might include liquidity, purpose, restrictions, tax gain or loss, and other key information. Also, GAAP reporting provides limited guidance for the reporting standardized supporting materials thereby limiting transparency, inspection, and analysis.

In conclusion, GAAP reporting that summarizes an entity's entire digital asset portfolio is limited without complete work papers for the digital assets owned or held by an organization in addition to their associated liquidity profiles along with notable call outs which might include asset risk, counterparty risk, tax liability, and more. The ASU does mandates entities to disclose detailed information about each significant digital asset holding, but its effectiveness is limited by the subjective nature of how entities determine "significance," potentially affecting consistency and comparability across reports. The Statement of Digital Assets provides this backing and structure, thereby illustrating a more complete and transparent view as to the health and operation of digital asset-enabled businesses.

					USD FMV		USD Book/BS	
Accounting	Role	Assets	Qty					
FMV	Ops / Admin	NeoWallet (SPC) 3000F	ETH	1,576.0	4,532,880	2,234,400		
BV	Ops / Admin	Contractor Payments (SPC)	RPZ	75,000.0	241,750	-		
FMV	Ops / Admin	Engineering (SPC)	ETH	1.0	2,800	111,720		
BV	Ops / Admin	Engineering (SPC)	ETH	1.0	2,800	111,720		
BV	Ops / Admin	Marketing (SPC)	ETH	1.0	2,800	111,720		
BV	Ops / Admin	Public Goods	ETH	1.0	2,800	111,720		
FMV	Ops / Admin	Misc-Ops (SPC)	ETH	1.0	2,800	111,720		
FMV	Ops / Admin	Customer ID	ETH	1.0	2,800	111,720		
BV	Ops / Admin	Employee ID	ETH	1.0	2,800	111,720		
FMV	Ops / Admin	Trading Acc	ETH	1.0	2,800	111,720		
FMV	Ops / Admin	Test (SPC)	ETH	1.0	2,800	111,720		
FMV	Ops / Admin	Tax Liability	ETH	1.0	2,800	111,720		
FMV	Ops / Admin	Tax Liability	ETH	1.0	2,800	111,720		
BV	Native	Meta NFT 1	ETH	1.0	2,800	111,720		
BV	Native	Native Receipt	ETH	1.0	2,800	111,720		
BV	Native	Native Token	ETH	1.0	2,800	111,720		
BV	Native	Native Unallocated Treasury (SPC)	RPZ	10,000,000.0	32,500,000	-		
BV	Field	Defi Wallet / Treasury (SPC)	SUPA20C-WTH	1.0	-	358,800		
BV	Field	SUPA20C-WTH (SPC)	USDC	35,800.0	35,800	358,800		
BV	Field	SUPA20C-WTH (SPC)	WETH	800.0	35,180	240,000		
					\$ 3,307,910,040	\$ 4,452,539		
Accounting Treatment:								
Fair Value					6,674,939	3,606,739		
Book Value (Impaired)					3,301,235,101	843,801		
					\$ 3,307,910,040	\$ 4,452,539		
SC	Ops / Admin	Customer Trading Account (SPC)	USDC	651,800.0	651,800	651,800		
SC	Ops / Admin	Subsidiary Ops (SPC)	USDC	300,000.0	300,000	300,000		
SC	Tax Liability	Gap Gains Liability (SPC)	USDC	2,000,000.0	2,000,000	2,000,000		
SC	Tax Liability	Tax Liability (SPC)	USDC	1,500,000.0	1,500,000	1,500,000		
					\$ 4,462,800	\$ 4,452,800		
Total					\$ 3,312,431,842	\$ 4,944,342		

ASSETS:		EOM 202X	
Current assets:			
Cash and cash equivalents		\$	XX,XXX
Marketable securities			XX,XXX
Accounts receivable, net			
Vendor non-trade receivables			
Inventories			XX,XXX
Digital assets			XX,XXX
DA Fair value			
DA Book value (impaired)			
DA Stablecoins			
Total digital assets			
Total current assets			
Non-current assets:			
Marketable securities			
Property, plant and equipment, net			XX,XXX
Other non-current assets			XX,XXX
Total non-current assets			XX,XXX
Total assets		\$	XX,XXX
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Accounts payable		\$	XX,XXX
Other current liabilities			XX,XXX
Deferred revenue			XX,XXX
Commercial paper			XX,XXX
Term debt			XX,XXX
Total current liabilities			XX,XXX
Non-current liabilities:			
Term debt			XX,XXX
Other non-current liabilities			XX,XXX
Total non-current liabilities			XX,XXX
Total liabilities			XX,XXX
Commitments and contingencies			
Shareholders' equity:			
Common stock			XX,XXX
Retained earnings			XX,XXX
Accumulated other income/(loss)			XX,XXX
Total shareholders' equity			XX,XXX
Total liabilities and shareholders' equity		\$	XX,XXX

SoDA Tie Out: Most digital assets are classified as indefinite-lived intangible assets (with GAAP reported at the lower of cost or market) - SoDA ties out to the balance sheet.

FASB ASU 2023-08

In December 2023 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2023-08 (“ASU”), aimed at refining the accounting and disclosure practices for crypto assets. The ASU is an important step in enhancing the transparency and relevance of financial information provided to investors, lenders, and other key stakeholders.

Traditionally, holdings of digital assets were accounted for as indefinite-lived intangible assets under a cost-less-impairment model. This approach, while consistent with historical accounting principles, has been increasingly viewed as misaligned with the dynamic nature of digital assets. It offered a limited window into the actual economic value and financial position of entities, capturing only the declines in asset values without reflecting potential appreciations and past price recoveries. (All of that said, a significant number of digital assets will continue to be valued under a cost-less-impairment model).

ASU 2023-08 introduces a transformative shift by mandating the measurement of applicable crypto assets at fair value, with changes in value recognized in net income each reporting period and also separately from other intangibles. This move towards fair value accounting is set to provide a more accurate depiction of the economic realities underlying crypto assets, aligning the reported financial information with the assets' market-driven valuations. While ‘applicable crypto assets’ will be valued at fair market value the existing cost-less-impairment model will continue to be applied to many other digital assets.

The following chart outlines the specific criteria that digital assets must meet to qualify for fair market value reporting under the new FASB ASU 2023-08 guidelines. It should be noted that the scope for FMV treatment ends up limited with all criteria met to qualify.

Parameters to Qualify for Fair Market Value Reporting (per ASU)	Implications
Meets the definition of intangible assets (as defined in the Codification Master Glossary')	
Are created or reside on a distributed ledger based on blockchain or similar technology	
Are secured through cryptography	
Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets	No RWAs, No Wrapped Tokens
Are fungible	No NFTs
Are not created or issued by the reporting entity or its related parties	No Native Tokens

The implications of ASU 2023-08 extend beyond measurement to the presentation and disclosure of crypto assets. In a stride towards enhanced clarity, the ASU mandates the separate presentation of crypto

assets measured at fair value from other intangible assets within financial statements. This distinction ensures that the unique characteristics and value generation mechanisms of crypto assets are clearly communicated, addressing investor calls for greater transparency and informative disclosure in financial reporting.

Furthermore, the ASU sets forth comprehensive disclosure requirements, including detailed information on significant holdings of crypto assets and the inclusion of a digital asset roll forward. Entities are encouraged to exercise judgment in identifying significant holdings based on fair value, thereby enabling investors to assess the exposure and risks associated with individual crypto asset holdings more effectively.

Set to take effect for fiscal years beginning after December 15, 2024, with provisions for early adoption, ASU 2023-08 marks a significant milestone in the journey towards more relevant and decision-useful financial reporting in the digital age.

ASU 2023-08's emphasis on fair value measurement, enhanced disclosure, and transparent presentation of crypto assets resonates deeply with SoDA's objectives. By aligning SoDA with the principles and requirements outlined in ASU 2023-08, entities can leverage this framework not only to comply with the new standards but also to harness the strategic insights and transparency that come with advanced digital asset reporting. This alignment underscores SoDA's relevance and adaptability in a landscape marked by rapid innovation and regulatory advancements, ensuring that it remains a critical tool for entities seeking to navigate the complexities of digital asset accounting and disclosure in the era of ASU 2023-08.

Key Insights

SoDA is designed to be readily understood by financial professionals, given that it builds upon familiar GAAP rules and guidelines. Furthermore, it is also tailored to be intuitive for those operating digital asset-based businesses, as it flexibly integrates the diverse and dynamic characteristics of digital assets, along with their typical storage and operational uses.

Statement of Digital Assets					
As of EOM					
Role	Wallet	Asset	Qty	USD FMV	USD Book/BS
				\$Ttl	\$Ttl
Ops / Admin	Hot Wallet (3PC) 'XXXX'	ETH	1,176.0	4,132,880	2,234,400
Ops / Admin	Contractor Payments (3PC)	XYZ	75,000.0	243,750	-
Ops / Admin	Engineering (3PC)	ETH	58.8	206,644	111,720
Ops / Admin	Engineering (3PC)	XYZ	50,000.0	162,500	-
Ops / Admin	Marketing (3PC)	XYZ	120,000.0	390,000	-
Ops / Admin	Public Goods / Grants (Multi)	XYZ	200,000.0	650,000	-
Ops / Admin	Misc-Ops (Self)	ETH	24.5	86,102	46,550
Ops / Admin	Custodied Trading Account (Multi)	ETH	303.3	1,065,811	576,220
Ops / Admin	Employee Incentive (3PC)	XYZ	25,000.0	81,250	-
Ops / Admin	Trading Account (Multi)	ETH	82.0	288,045	155,729
Ops / Admin	Test (Self)	ETH	9.8	34,441	18,620
Tax Liability	Tax Liability (3PC)	ETH	245.0	861,017	465,500
NFT	Meta NFT 1 (3PC)	BAYC-1245	1.0	250,000	250,000
Native	Native Restricted Treasury (3PC)	XYZ	1,000,000,000.0	3,250,000,000	-
Native	Native Locked Treasury (3PC)	XYZ	5,000,000.0	16,250,000	-
Native	Native Unrestricted Treasury (3PC)	XYZ	10,000,000.0	32,500,000	-
Yield	DeFi Wallet / Treasury (3PC)	SLP-USDT-WETH	1.0		
Yield	SLP-USDC-WETH (3PC)	USDT	353,800.5	353,801	353,801
Yield	SLP-USDC-WETH (3PC)	WETH	100.0	353,801	240,000
				\$ 3,307,910,040	\$ 4,452,539
Ops / Admin	Custodied Trading Account (3PC)	USDC	651,801.9	651,802	651,802
Ops / Admin	Stablecoin Ops (3PC)	USDC	350,000.0	350,000	350,000
Tax Liability	Cap Gains Liability (3PC)	USDC	2,000,000.0	2,000,000	2,000,000
Tax Liability	Tax Liability (3PC)	USDC	1,500,000.0	1,500,000	1,500,000
				\$ 4,501,802	\$ 4,501,802
Total				\$ 3,312,411,842	\$ 8,954,341

Book Value vs. Fair Market Value: Based on the nuances associated with crypto accounting the variance between BV and FMV can make the balance sheet opaque.

Book Value vs. Fair Market Value

At the heart of SoDA lies the distinction between book value and fair market value applied to each Wallet/Asset Pair. Book value, indicates the lower of either the original cost of the asset or its fair market value (per Lower Cost or Market “LOCOM”), often diverging significantly from the fair market value.

Though the balance sheet 'build' offers a reliable proof, it falls short in guiding strategic decision-making, risk management, and investor communication. Book value limits the visibility to a firm's liquidity, while fair market value may not tell the whole story, subject to market liquidity, asset risk, and latent tax liability. Therefore, users of financial statements might find seeing both BV and FV to easily understand unrealized gains or losses at a given moment for a particular asset or asset pair.

Statement of Digital Assets					
As of EOM					
Role	Wallet	Asset	Qty	USD FMV	USD Book/BS
				\$Ttl	\$Ttl
Ops / Admin	Hot Wallet (3PC) 'XXXX'	ETH	1,176.0	4,132,880	2,234,400
Ops / Admin	Contractor Payments (3PC)	XYZ	75,000.0	243,750	-
Ops / Admin	Engineering (3PC)	ETH	58.8	206,644	111,720
Ops / Admin	Engineering (3PC)	XYZ	50,000.0	162,500	-
Ops / Admin	Marketing (3PC)	XYZ	120,000.0	390,000	-
Ops / Admin	Public Goods / Grants (Multi)	XYZ	200,000.0	650,000	-
Ops / Admin	Misc-Ops (Self)	ETH	24.5	86,102	46,550
Ops / Admin	Custodied Trading Account (Multi)	ETH	303.3	1,065,811	576,220
Ops / Admin	Employee Incentive (3PC)	XYZ	25,000.0	81,250	-
Ops / Admin	Trading Account (Multi)	ETH	82.0	288,045	155,729
Ops / Admin	Test (Self)	ETH	9.8	34,441	18,620
Tax Liability	Tax Liability (3PC)	ETH	245.0	861,017	465,500
NFT	Meta NFT 1 (3PC)	BAYC-1245	1.0	250,000	250,000
Native	Native Restricted Treasury (3PC)	XYZ	1,000,000,000.0	3,250,000,000	-
Native	Native Locked Treasury (3PC)	XYZ	5,000,000.0	16,250,000	-
Native	Native Unrestricted Treasury (3PC)	XYZ	10,000,000.0	32,500,000	-
Yield	DeFi Wallet / Treasury (3PC)	SLP-USDT-WETH	1.0		
Yield	SLP-USDC-WETH (3PC)	USDT	353,800.5	353,801	353,801
Yield	SLP-USDC-WETH (3PC)	WETH	100.0	353,801	240,000
				\$ 3,307,910,040	\$ 4,452,539
Ops / Admin	Custodied Trading Account (3PC)	USDC	651,801.9	651,802	651,802
Ops / Admin	Stablecoin Ops (3PC)	USDC	350,000.0	350,000	350,000
Tax Liability	Cap Gains Liability (3PC)	USDC	2,000,000.0	2,000,000	2,000,000
Tax Liability	Tax Liability (3PC)	USDC	1,500,000.0	1,500,000	1,500,000
				\$ 4,501,802	\$ 4,501,802
Total				\$ 3,312,411,842	\$ 8,954,341

Fair Market Value: A variety of factors can cause an extreme variance from reported GAAP, including: increase in crypto prices, uncirculated native tokens, NFTs, RWAs among other things.

Fair Market Value Idiosyncrasies

With respect to how fair market value might be different from book value, let's consider a few of the example above.

- Fair Market Value of Tokens – Fair Market Value Measurement (per ASC 820) is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Per the example above, for ETH alone there is a significant variance between book and fair market value - this level of details around unrealized gain/losses are typically buried within other unrealized gains in a traditional financial statement..
- Native Tokens – Native tokens are defined as tokens created or issued by the reporting entity or its related parties (aka governance or utility tokens). If a project has distributed a certain number of tokens to their community via pre-sales, airdrops, grants, and/or other means but retained a portion for treasury, the remaining tokens would be on the balance sheet per GAAP at de minimis value. Assuming there is a market for those tokens on a centralized exchange or through an automated market maker (AMM), the FMV would be guided by the current market price – which would likely represent a substantial difference from cost. There are also tax considerations and any disposition would be subject to capital gains as detailed below.

- Non-Fungible Tokens (NFTs) – By their very definition, non-fungible tokens represent an asset that is unique and likely lacks a market-based pricing approach to attain their fair market value. Third-party custody firms will charge a percent of a profile picture (PPF) collection's floor price when determining asset based pricing. There are also algorithmic-based applications that will value specific categories of NFTs based on their provenance and/or specific attributes. As one might imagine, there is a bit of art and science involved when determining the FMV of an NFT.
- Unrealized Tax Liabilities – The difference between book and fair market value represents an unrealized gain of a particular asset. If sold at the fair market value price, the business would be subject to capital gains tax based on the length of time the assets were held. Based on past experience, unrealized tax liability can be a non-trivial amount when determining a firm's true liquidity value. While it is possible to infer unrealized tax liabilities through calculating unrealized gains/losses by comparing BV from prior period and FV from current period (the new ASU requires a breakdown/separate reporting only for recognized gains/losses), it might not be straightforward if there are significant selling/buying activities.
- Restricted Tokens – Some assets might be restricted in terms of usage or duration. An example might include assets held in custody on behalf of customers. Another might be tokens that are staked into a network or protocol and have a time-determined duration to them. Some staking duration could be on a monthly basis, others could be on a longer term or indefinitely as the case of an intention by a company to stake a network for operational purposes. Per the new ASU, the reporting entity is required to disclose any restrictions as to underlying assets' sale, transferability or use, as well as if the restriction applies to the asset itself or the holder.
- Real World Assets (RWA) – The tokenization of physical and off-chain financial assets has been a long standing promise of blockchain technology and is gaining increasing (if not measured) momentum. Tokenized assets can include real estate, art, treasuries, and repo agreements. FASB's most recent exposure draft deemed that RWAs in general will continue to be treated as intangible assets, their ultimate treatment will ultimately depend on the underlying asset that has been tokenized.
- Off-Balance Sheet Digital Assets – When a business hires a market maker to create liquidity for their token, a standard arrangement includes a loan of the project's token to the market maker to provide market liquidity (as a buyer or seller). When domain and control of the tokens are transferred to the market maker it is treated as a disposition and is not visible or recognized within the wallet infrastructure, although there is still legal 'off-chain' ownership of the digital assets. Other instances can include loans to community participants to encourage building on a particular ecosystem.

SoDA Primitives: Wallet, Asset, and Role

SoDA's first order is providing clarity to an entity's digital asset full liquidity picture. The core 'primitives' in pursuit of this analysis are comprised of an entity's wallets, the assets in those wallets, and the roles of those wallets which are unique to a business and tagged/determined by the user.

The key insight here is that digital assets are highly diverse in nature with varying liquidities, durations, and asset types. The organization around wallet, asset type, and role provide clarity as to the nature, use, and location of the asset, and ultimately a firm’s approach to treasury management.

Wallet

The use of wallets as an organizing primitive serves not only to determine the location of assets but also identify the store of specific assets (although assets are not wallet specific) and general intent of use. Most digital asset-based businesses will use different wallets with different signatories and signing arrangements. ‘Wallet’ is a human-readable identifier and each wallet is tied to either a self-hosted wallet address or a wallet held by a third party custodian.

Asset

Asset refers to is the digital currency or token held, typically denoted by its token name, NFT name, or other communally-assigned asset identifier. Assets can be fungible (interchangeable with other assets of the same type) or non-fungible (representing ownership and provenance in a unique asset including digital arts, event ticketing and off-chain assets).

Wallet/Asset Pair

Wallet/Asset Pairs are the atomic elements of SoDA, representing the building blocks that tell the story of an organization’s treasury. They can serve multiple roles and have a variety of different attributes. They can be combined with other pairs that serve similar roles to get a better understanding of a particular treasury profile or be segregated to identify restricted or locked digital assets. For tax gain/loss harvesting purposes Wallet/Asset Pair segregation also allows for easier basis tracking.

Role

Role reflects the varied use of Wallet/Asset Pairs within digital asset based businesses. Roles are user generated and specific to businesses and allow users to ‘roll up’ their wallet balances in categories that align with the way their treasury is managed. The particular categorization used allows for multifaceted roll-up views.

Roles are entity-specific uses applied to the Wallet/Asset Pairs that provide important information for how to perceive their functions and uses as part of business operations, treasury, custodial holdings, or other.

Here is a list of common Roles currently applied in existing statements.

Restricted Tokens	Tokens distributed to an organization may have strict stipulations regarding their use (community grants, employee incentives, etc.) - these tokens should be segregated in dedicated wallets based on their intended use.
Yield	Wallets used for staking and DeFi yield-generating
Tax Liability	Transferring token-based revenue into stable-coins to mitigate price fluctuation
OPs/Admin	Wallets used for operational purposes across an organization such as those used in R&D, marketing, or engineering
NFTs	NFTs held across all wallets

Statement of Digital Assets					
As of EOM					
Role	Wallet	Asset	Qty	USD FMV	USD Book/BS
				\$Ttl	\$Ttl
Ops / Admin	Hot Wallet (3PC) 'XXXX'	ETH	1,176.0	4,132,880	2,234,400
Ops / Admin	Contractor Payments (3PC)	XYZ	75,000.0	243,750	-
Ops / Admin	Engineering (3PC)	ETH	58.8	206,644	111,720
Ops / Admin	Engineering (3PC)	XYZ	50,000.0	162,500	-
Ops / Admin	Marketing (3PC)	XYZ	120,000.0	390,000	-
Ops / Admin	Public Goods / Grants (Multi)	XYZ	200,000.0	650,000	-
Ops / Admin	Misc-Ops (Self)	ETH	24.5	86,102	46,550
Ops / Admin	Custodied Trading Account (Multi)	ETH	303.3	1,065,811	576,220
Ops / Admin	Employee Incentive (3PC)	XYZ	25,000.0	81,250	-
Ops / Admin	Trading Account (Multi)	ETH	82.0	288,045	155,729
Ops / Admin	Test (Self)	ETH	9.8	34,441	18,620
Tax Liability	Tax Liability (3PC)	ETH	245.0	861,017	465,500
NFT	Meta NFT 1 (3PC)	BAYC-1245	1.0	250,000	250,000
Native	Native Restricted Treasury (3PC)	XYZ	1,000,000,000.0	3,250,000,000	-
Native	Native Locked Treasury (3PC)	XYZ	5,000,000.0	16,250,000	-
Native	Native Unrestricted Treasury (3PC)	XYZ	10,000,000.0	32,500,000	-
Yield	DeFi Wallet / Treasury (3PC)	SLP-USDT-WETH	1.0		
Yield	SLP-USDC-WETH (3PC)	USDT	353,800.5	353,801	353,801
Yield	SLP-USDC-WETH (3PC)	WETH	100.0	353,801	240,000
				\$ 3,307,910,040	\$ 4,452,539
Ops / Admin	Custodied Trading Account (3PC)	USDC	651,801.9	651,802	651,802
Ops / Admin	Stablecoin Ops (3PC)	USDC	350,000.0	350,000	350,000
Tax Liability	Cap Gains Liability (3PC)	USDC	2,000,000.0	2,000,000	2,000,000
Tax Liability	Tax Liability (3PC)	USDC	1,500,000.0	1,500,000	1,500,000
				\$ 4,501,802	\$ 4,501,802
	Total			\$ 3,312,411,842	\$ 8,954,341

Roles and Tags: Assigning roles to Wallet/Asset Pairs allows for a variety of rollups to present a multifaceted view of treasury along with standardized reporting for a variety of stakeholders

III. Statement of Digital Assets Benefits

SoDA's foundation provides financial transparency for digital assets on a balance sheet supporting several core pillars including: what is owned vs. what is held; what is locked or restricted; offering multiple lenses on holdings; and standardizing reporting for a variety of stakeholders.

Transparency of Liquidity Profile

One of the most significant benefits of the Statement of Digital Assets is transparency of the liquidity profile of an organization's digital assets, as it provides a readily available map of the role, location, and type of digital assets held. An underlying principle of blockchain technology is transaction validation via network participants and verification of those transactions 'on-chain'. Balances and transactions maintained by a public blockchain are open for inspection and/or verification (whether out in the open or via the proper cryptographic proofing methods of shielded transactions.). Having verified Wallet/Asset Pair balances is essential as they can be reconciled to associated blockchains.

The analysis provided by SoDA quantifies and qualifies the assets owned by an organization and those held on behalf of customers⁵. It offers benefits in terms of transparency of asset risk, accessibility, and multifaceted analysis. There are a variety of cryptocurrencies with different designs and adoption which inform the asset's quality and liquidity.

The table below provides a snapshot of common digital assets held by businesses along with their associated risks. While SoDA cannot quantify the asset specific risks, it does allow for transparency so a reader can make their own determinations.

Digital Asset	Definition and Risks
Stablecoins	<ul style="list-style-type: none">● Pegged to a fiat currency, with equal or higher assets backing● Can be treated similarly to fiat for runway and cash planning● Not without risk
Bitcoin & ETH	<ul style="list-style-type: none">● Native coins for leading blockchains● Highly liquid● Value can fluctuate similarly to risk equities
Altcoins	<ul style="list-style-type: none">● Tokens that are not Bitcoin or Ethereum● Subject to risk-asset valuation swings● Can be impacted by a lack of liquidity and the utility associated with the projects they represent
Native Tokens	<ul style="list-style-type: none">● Altcoins that are issued by the reporting entity or associated with it via a related entity● May have illiquid market state conditions based on the size of the treasury (even if public trading exists)

⁵ Subject to audit.

Non-Fungible Tokens	<ul style="list-style-type: none"> • Can include PFPs and other generative art in addition to tokenized real-world assets • Inexact/highly variable valuation processes • Can have indeterminate/challenging liquidity profiles
DeFi & CeFi	<ul style="list-style-type: none"> • Primarily tokens associated with yield generating protocols • Yield opportunities primarily from lending and staking • Risks can include limited access to liquidity, smart contract flaws, counterparty risk, regulatory risk, and a variety of other scenarios

While SoDA will not ‘score’ the quality of the digital assets on a balance sheet, it will clearly articulate the underlying assets behind the GAAP entry. Note that when assessing the quality of digital assets within operating dashboards and/or other downstream analyses, a variety of risk factors and valuation metrics can be applied. Primary considerations are the market validation of the asset, which might include attributes such as its acceptance, stability, and/or performance within the broader market. The technical aspects and security features of the asset along with its vulnerability to cyber threats can also be considered. The asset's novelty, regulatory landscape, and liquidity concerns can additionally be taken into account – understanding that newer assets may pose more risk, regulatory changes can impact an asset's future, and price volatility can affect its liquidity.

Asset	Qty	USD FMV	USD Book/BS
ETH	1,899.3	7,202,092	3,608,739
XYZ	1,015,470,000.0	3,301,740,000	-
BAYC-1245	1.0	250,000	250,000
WETH	100.0	353,801	240,000
USDT	353,800.5	353,801	353,801
USDC	4,501,802	4,501,802	4,501,802
Total		\$ 3,314,401,495	\$ 8,954,341

Rollup by Asset: Defining an organization’s treasury by asset type can provide an immediate snapshot of risks and other factors.

Transparency of Customer Assets and Other Balance Sheet Liabilities

Where the asset section of a balance sheet represents what an organization owns, its liabilities are what is owed including, but not limited to, digital assets custodied on behalf of customers. Customer custody must be demonstrable along with detailed back up to ensure an organization’s solvency with corresponding asset coverage.

While the focus of this paper is the bridging of an organization's digital assets to GAAP reporting, SoDA can easily serve to track its customer liabilities (assets custodied on customers behalf) and provide the necessary work papers to demonstrate solvency to auditors, regulators and other parties seeking to confirm solvency.

Asset Accessibility

Asset accessibility refers to the location of private keys along with any restrictions of use and whether they are owned by the entity or are being held for customers. Through the use of roles, identifiers of specific Wallet/Asset Pairs can be tagged to call out restrictions of use, and, most importantly, what can be considered liquidity for a business (both short and long term) and what cannot.

The issues of where a digital asset is custodied (either self or third party) and who has access and for what purpose are details that can be gleaned from a SoDA. The primary risks that can be mitigated include assessment of operational security by Wallet/Asset Pair (i.e. who internally has access), and identification of any risks that might be associated with the custody provider.

Accessibility	Description
Locked	<i>Written into smart contract</i>
Restricted	<i>Allocated for programs such as token comp or community grants</i>
Staked	<i>Tokens locked in smart contracts</i>
Off-Balance Sheet	<i>Loans to market makers</i>

Accessibility: Sample table of accessibility classifications

Multi-Faceted Analysis

Digital assets are used for a variety of purposes and serve a significant number of different roles within an organization. The Statement of Digital Asset permits business operators to tag Wallet/Asset Pairs within the analysis by user-defined roles to provide for multifaceted analysis of an entity's treasury.

While a review of Wallet/Asset Pairs at both book value and fair market value reveal a significant amount more about an organization's treasury, it still only presents a two-dimensional view. Each Wallet/Asset Pair may have multiple taggable traits that can then provide for a variety of rollups to further inform the reader of financials about the state of digital asset health. Key areas to 'double click' here include: cash and equivalent runway, FMV of non-restricted digital assets, tax liability of unrealized gains, tax reserved in stablecoin for income tax purposes, and many others.

Risk Management

Corporate finance is at the cusp of a significant transformation, marked by the increasing integration of digital assets into balance sheets. While capital allocation decisions will be made on a case-by-case basis, a number of emerging trends present a compelling case for adoption by any business. Many digital asset-adjacent businesses already seek to capture market beta from digital assets by introducing digital assets to their fiat-denominated revenue streams and balance sheets. Regardless of industry positioning, digital assets will continue to provide a hedge against fiat debasement and present an alternative to

traditional treasury management vis-a-vis native yield-generating opportunities stemming from the proliferation of Proof-of-Stake (PoS) blockchains. From a revenue perspective, significant digital asset-denominated revenue opportunities will continue to grow with the maturation of decentralized autonomous organizations (DAOs) and foundations, whose treasures sit at nearly \$50bn at the time of writing according to DeepDAO¹.

As enticing as these opportunities may be, they underscore the importance of implementing robust reporting and control mechanisms. These measures are crucial for addressing the informational needs of current and prospective financial stakeholders, ensuring transparency and trust in this new frontier of corporate finance.

However, the path towards incorporation of digital assets is fraught with challenges and inconsistencies. Previous editions of this whitepaper have highlighted a significant hurdle: the prevalent industry practice of reporting digital assets as a single-line entry on the balance sheet. While this method satisfies technical GAAP requirements, it falls short of capturing the unique characteristics of individual digital asset holdings, such as their volatility and accessibility. This oversight complicates stakeholders' ability to gauge the effectiveness of a company's risk management strategies in relation to its overall liquidity. Additionally, despite many finance leaders adopting ad hoc reporting practices, the absence of a standardized reporting framework remains a barrier to understanding and comparing different companies' financial health and strategies.

Addressing these challenges, the Statement of Digital Assets (SoDA) offers a pioneering solution. SoDA introduces a comprehensive backing sheet dedicated to the digital assets owned or held by an organization alongside a widely accepted framework for assessing their fair market value and liquidity profiles. This innovation enhances external stakeholders' ability to conduct analyses by improving comparability between companies and offering a deeper insight into a company's liquidity management. Furthermore, SoDA aids in streamlining internal risk management processes by providing detailed valuations of digital assets in a monthly periodic snapshot. For example, a company could leverage the SoDA to monitor the proportion of digital assets to its overall current assets on a monthly basis—ensuring it remains below a predetermined threshold, such as 10%—thereby facilitating regular rebalancing and maximizing runway while maintaining the desired level of digital asset exposure. This strategic approach safeguards the company's financial health and better aligns with stakeholder expectations.

Standardization of Reporting

Standardizing around a generalized Statement of Digital Assets format benefits many stakeholders and creates a framework that can be used to inform many business processes and downstream analysis. Just as the income statement, balance sheet, and cash flow statements touch on a broad spectrum of internal and external needs, the Statement of Digital Assets also brings about comparability for investors and other stakeholders to analyze organizations easily on an apples to apples basis.

A few examples of applications and beneficiaries are listed below. These uses will benefit from a common structure and collective reasoning. Furthermore, the evolution of tools and processes in pursuit of a shared model will further accelerate the capabilities and usefulness of this approach.

Standardization Beneficiaries

- *Operations Management*
- *Financial Planning and Analysis*
- *Treasury Management*
- *Investor Reporting*
- *Regulatory Compliance*
- *Audit Readiness*
- *Tax Preparation*
- *Token Incentive Planning*

IV. SoDA's Origin Story & State of Crypto Accounting

The SoDA structure was born from practical use and its increasing relevance is closely tied to the developing regulatory environment surrounding digital assets.

Origin and History

The intentions behind the earliest versions of the Statement of Digital Asset were not meant to create a formal accounting standard but rather to serve the operational needs of teams running digital asset-based businesses. SoDA was created to provide management a way to understand the value and use of digital assets held in their treasuries. The general format began several years ago with its use within a handful of organizations and then proceeding to more organizations, each with different asset compositions and business models.

The genesis of SoDA was born out of the early days of crypto-accounting, where spreadsheets were largely the tool of choice to translate on-chain activity to balance sheets and generate journal entries for the income statement. This work proved cumbersome, inefficient, and often inaccurate.

Building on these early efforts, one of the principal authors of this paper began work with a Layer 2 blockchain roll-up development lab (and subsequently their foundation) that was projected to handle millions of transactions per month shortly following its launch. This volume would overwhelm any spreadsheet-driven model and necessitate a more robust and scalable solution. Fortunately, crypto subledger solutions were beginning to mature and collaborative work followed that opened the door for SoDA-supporting measures.

A crypto subledger is a tool that works with a traditional general ledger that tracks all transactions and wallet balances on any of the networks it supports. subledgers are integral for calculating the journal entries for revenue, cost of sales, expenses, realized gains, and calculate the balance sheet entry per US GAAP.

Close partnership with an early subledger developer proved effective as the team was able to properly close the books to include digital assets reporting performance in compliance with US GAAP. Subsequent beneficiaries of this combined approach included projects focused on infrastructure, foundations, NFTs, gaming, DeFi, and other web3 applications.

Fully GAAP compliant financials, however, highlighted a significant discrepancy in the accounting process. The originating team found that while they could report the correct GAAP entry on the balance sheet, this entry failed to provide an accurate picture of what was owned or the fair market value of current assets. This realization led to the first iteration of a Statement of Digital Assets – the goal being to represent an entity's market value, enhancing transparency and enabling more informed decision-making (and to 'show the build' of the GAAP balance sheet entry to non-accountants).

The most recent expression of the Statement of Digital Assets is an iterative collaboration over the past several years that include accounting and audit professionals, VCs, crypto practitioners, subledger providers, and others.

Although double entry accounting has been used for over 500 years, GAAP reporting standards continue to evolve to address accounting short falls. The Statement of Cash Flows was mandated by the Financial Accounting Standards Board through Statement No. 95, known as FAS 95, in 1987. Before this, companies typically reported a Statement of Changes in Financial Position, which did not provide the same level of detail or insights into a company's cash position as the Statement of Cash Flows does today. The change to mandate the Statement of Cash Flows was aimed at improving the transparency and comparability of financial statements. While no single event might have triggered FAS 95, it also arrived against a backdrop of fraud and rising interest rates, along with the 'Savings and Loan' crisis of the 1980s. Similar to today, the Cashflow Statement began as a suggested working document aiming to improve transparency to all careful readers of corporate finances. It now sits alongside the Balance Sheet and Income Statement as a pillar of financial reporting.

SoDA's Balance Sheet Focus

The focus on supporting the balance sheet was a natural starting point with respect to the accounting and reporting of digital assets as the Statement of Digital Assets attempts to make transparent what was previously an opaque value (per GAAP) – namely what is the value of the digital assets of an organization.

Focusing on digital currency and asset-based income and expenses as well as currency and asset flows are important (and will be even more so in the future), however, any focus on these items is secondary in comparison to providing a detailed and transparent understanding of the digital currencies and assets held and used by an organization.

Current State of Crypto Accounting

Crypto accounting is still in the early stages of development as indicated by a variety of factors which include evolving financial guidelines, uncertain regulatory guidance, developing accounting tools, nonstandard reports and processes, audit and assurance challenges, and more. Per Messari's 2023 Theses:

"Want to solve systematic risks? We'll need investments in disclosures standards (hi, Messari!), proof-of-reserves and on-chain monitoring infrastructure, and crypto's GAAP accounting moment..." and also notes "It's time for security and audit standards. Risk waivers. Comprehensive community disclosures."

Evolving Reporting Guidelines

The recent ASU marks a positive development by allowing fair market value reporting for certain digital assets, diverging from the restrictive lower of cost or impairment model. However, this update does not extend to all digital assets, such as NFTs and native tokens, which still adhere to the older valuation approach. Continued advancements in GAAP are necessary to fully address the diverse and evolving nature of digital asset valuations.

Uncertain Regulatory Guidance

Regulation regarding the recognition and treatment of digital assets by various government agencies are evolving (and in some cases competing) while legislative initiatives are also developing. This imprecision creates challenges for accountants in determining the appropriate treatment for digital asset-based transactions including such elements as valuation, classification, and recognition.

Developing Accounting Tools

Traditional accounting tools and software are not fully equipped to handle the unique characteristics of digital assets. Tools for digital assets are available and are increasingly powerful but they are in their early stages, none with complete coverage of all networks and protocols, many require manual keying to properly book transactions, and are directly impacted by protocol updates. On-chain analysis tools are also available but can often require significant customization or expert use in order to satisfy bookkeeping or auditing needs.

Nonstandard Reports and Processes

With the inadequacy of currently available guidance related to digital assets, there is not a set standard for the reporting of digital assets. This gap causes accountants to create ad hoc reporting, as well as the processes to produce and reconcile said reporting, on a case-by-case basis in order to fulfill the deliverables for an accounting engagement. The lack of consistency in reporting can lead to a potentially misleading presentation of financial data across otherwise similar datasets. Without accepted processes for the reconciliation and delivery of financial reporting, accountants are left in silos to determine how to deliver financial statements.

Audit and Assurance Challenges

The financial statement audit of companies that hold and transact with digital assets can be challenging for a variety of reasons, many of which revolve around the lack of a reliable system of record. This is not surprising given the novelty of blockchain and smart contract technology, but it does mean that the management of companies seeking a financial statement audit needs to invest in understanding the nature of these assets and underlying technology. Auditors will themselves need to establish whether they can rely on the information produced by blockchains and related smart contracts as audit evidence, and the more complex the blockchain protocol and the more complex a company's activity, the longer it may take the auditor to establish their own understanding, but keep in mind that it is management's assertions that underpin the financial statements, and auditors expect that management has done the work to substantiate those assertions.

Sources and/or Aggregators of Truth

Given the complexities, volatility, and the decentralized nature of digital assets across a variety of networks, verifiable sources and/or aggregators of truth are necessary in order to confirm and validate digital asset transactions. While there are various subledger platforms that can act as aggregators of these transactions, there are no singular platforms which capture all necessary transactions or ancillary data. Accurate reporting is dependent on tools supporting networks and protocols the organization is using which may or may not be fully aligned.

Current Treatments of Digital Assets

The current treatment of digital assets has developed such that it is serviceable in arriving at a proper accounting and understanding of digital assets but by no means fully rational or optimal. This generalized understanding has been an evolving process which should not be all that surprising since the nature and use of digital assets has been rapidly evolving. Having a lag between business use and accounting treatment is to be expected.

Here is a brief summary of the current state:

Classification	<p>Digital assets can be classified as a variety of asset forms based on their nature and intended use. Such classifications include investments, intangible assets, and inventory to name a few.</p> <ul style="list-style-type: none"> • Digital assets that are held for investment purposes, such as cryptocurrency or digital collectibles, are typically classified as investments (if it falls under the scope of ASC 946). • Digital assets that are acquired or developed for internal use are typically classified as intangible assets. • Digital assets used to generate revenue through sale or exchange, such as digital products or virtual currencies used in transactions, may be classified as inventory (if one is a broker dealer that meets ASC 940) or recognized as revenue.
Recognition	<p>Digital assets are recognized in the financial statements when it is probable that the future economic benefits associated with the asset will flow to the entity and the asset has a cost or value that can be reliably measured.</p> <ul style="list-style-type: none"> • For digital assets acquired for a purchase price, its cost basis is recorded as an intangible asset on the balance sheet. • For digital assets developed internally, the costs incurred during the development process may be capitalized as an intangible asset if certain criteria are met, such as technological feasibility and intent to complete the asset.
Measurement	<p>Digital assets are measured at cost initially, which includes the purchase price, development costs, and any other directly attributable costs. Subsequently, digital assets are generally measured at cost less accumulated amortization or impairment, unless they are classified as investments or held for trading purposes, in which case they may be measured at fair market value.</p>
Impairment	<p>If there is an indication that a digital asset may be impaired, such as if its carrying amount exceeds its recoverable amount, the asset must be tested for impairment. If the digital asset is impaired, its carrying amount is reduced to its recoverable amount, which is the higher of its fair market value less costs to sell or its value in use.</p>
Disclosures	<p>Entities are required to provide adequate disclosures related to their digital assets in the financial statements, including information on the nature and carrying amounts of these assets, the accounting policies applied, and any risks or uncertainties associated with the assets.</p>

FASB Exposure Draft Accounting and Disclosure of Crypto Assets

FASB recently voted to approve their changes to disclosure of certain digital assets (FASB Exposure Draft; Proposed Accounting Standards Update; Intangible-Goodwill and Other- Crypto Assets - Subtopic 350-60). At a high level, their decision to move away from the previous lower-of-cost-or-market (LOCOM) model is welcome news to many companies and users of financial statements who preferred a more relevant accounting approach that better reflects real-time market activities.

Not all digital assets, however, are subject to this standard. The digital assets covered include fungible assets that are on a blockchain, not issued by the reporting entity or its related parties, and those that do not provide the asset holder with enforceable rights. In other words, NFTs, digital intangibles, a company's own natively issued tokens, or arrangements with customers, guarantees, or wrapped tokens are effectively excluded.

There are two major changes in measurement approach: (1) organizations now can account for digital assets at fair market value with fluctuations recognized through the income statement and (2) cumulative adjustments will be applied to the opening retained earnings. When it comes to presentation and disclosure requirements, companies now need to separately disclose from other intangibles on the balance sheet and income statement. In addition, non-cash considerations exchanged and immediately converted to cash would be classified as "cash flows from operating activities."

There are also changes to disclosure requirements for annual reporting. For all individually significant digital assets, the name, cost basis, fair market value, and number of units need to be disclosed. For individually insignificant assets, only the aggregate fair market value and cost basis need to be disclosed. Organizations are further required to provide additional information about digital assets with restrictions (fair market value, nature of remaining duration, and circumstances that could change the restrictions to lapse), a roll forward (additions, disposals, gains and losses, and description of activities), disposal activities (difference between sale price and cost, description of the transaction), and method used to determine the cost basis (e.g., FIFO, specific identification).

Given that this standard does not address ALL digital assets, SoDA is even more important, to bridge the gap between different digital assets that may or may not be listed on the balance sheet at fair market value. This level of transparency, comparability and consistency are essential to the readers of financial statements. The standard adds complexity to an already complex presentation as certain digital assets on the balance sheet will be updated to represent their fair market value while others will be held at cost or impaired.

From a balance sheet perspective, even with these new standards, the current landscape necessitates a two tier reporting structure for digital assets that are 'marked to market' (i.e. Bitcoin or Ethereum) and others that will remain at the lower of cost or impaired value (NFTs, native tokens, wrapped tokens, etc.). The new reporting standards create a lack of parity between reported assets, an issue that SoDA will address via an "apples-to-apples" analysis of assets from both a cost basis and fair market value approach.

Evolving Nature of Digital Assets

The growth and evolution of digital assets will make for a fascinating case study twenty years from now much as the growth and evolution of websites and Internet-based interactions has been in the past thirty years. Many of the first websites were modeled after paper-based analogs whether they were magazines, newspapers, or company marketing catalogs. Similarly, in these early stages of web3, digital representations of analog-rooted financial instruments are some of the first notable offerings – the most noteworthy being currencies and bonds.

But as websites and web interactions quickly departed from their paper-based models to include scale, scope, and form that would have been unrecognizable by early Internet users, the same evolution will happen as the implications and capabilities of digital money and digital assets take hold – especially when combined with smart contracts, programmable logic, decentralized networks, digital wallets, and other

technical innovations. Financial statements and reporting guidelines will have to adapt to these novel innovations in the many forms they may take.

Growing Relevance of Digital Assets Across Business Sectors

What businesses can benefit from deploying SoDA? The short answer is any organization that has digital assets on their balance sheet. Exposure to digital assets can result from accepting crypto payments, making use of tokens to pay transaction, and/or network (gas) fees as part of operational use of blockchain networks, owning tokens that represent Real World Assets (RWAs), or holding or minting NFTs. Existing businesses range from traditional conglomerates to crypto-native firms with applications that service both businesses and the end consumer.

The Role of Subledgers and Systems

As the role of digital assets continues to evolve and expand with businesses and other organizations, the importance of maintaining accurate crypto-related records has grown. This evolution has led to the development of the digital asset subledger. A subledger serves as a specialized accounting tool designed to capture and track on-chain transactions. Given the unique features and dynamics of digital assets, there are specific challenges and considerations distinct from fiat currencies, which necessitated the creation of this type of dedicated subledger. Subledgers bridge the complexities of the variety of transactions and categorization by providing an intermediate layer that can be reconciled with the general ledger.

A subledger helps to aggregate digital asset transactions, then segregate and categorize them from purchases, sales, exchanges and transfers to revenue, cost of sales, operating expenses and other transactions. Inbound digital assets (primarily revenue) must be priced at the time it is received for balance sheet (lower of cost or market) reporting, while outbound (expenses and COS) need to be priced accurately to capture any realized gains or losses that need to be reported in other income (FMV less cost basis).

The monthly close process for digital asset wallets can be relatively similar to a bank reconciliation. The use of a subledger is essential for any business that has even minimal digital asset activity. The overall system setup and monthly close process are non-trivial and will likely require an experienced accountant to complete.

V. SoDA Use Cases

While there are a broad range of beneficiaries to the Statement of Digital Assets, an application is best understood when discussed 'in use' - the following represent scenarios where SoDA is actively deployed and also being evaluated for use.

Management Operations, Treasury Management, and FP&A

Month-end GAAP financials guide a business through informed decision making, ensure financial stability, and provide guidance for overall business strategy. Treasury management has long been seen as an isolated and subordinate domain within startups but it has now become synonymous within digital-asset based business for an expanded set of operational and digital asset management functions.

Such functions in crypto-related businesses extend beyond fiat management, yield, and banking relationships to now include tracking of all digital assets and their roles and use within an organization. Correspondingly, these functions also extend the risk management responsibilities as it relates to identifying, assessing, and managing asset-based risks that are associated with an organization.

Finance operations within a crypto-related business face multiple challenges. There is a lack of visibility of digital assets and their associated value per GAAP. Repeatable processes also need to be put in place to ensure an organization has actionable data on a regular monthly cadence. These challenges set the stage for the standardized and transparent reporting SoDA provides regarding visibility into the company's digital asset holdings, transactions, and related financial activities.

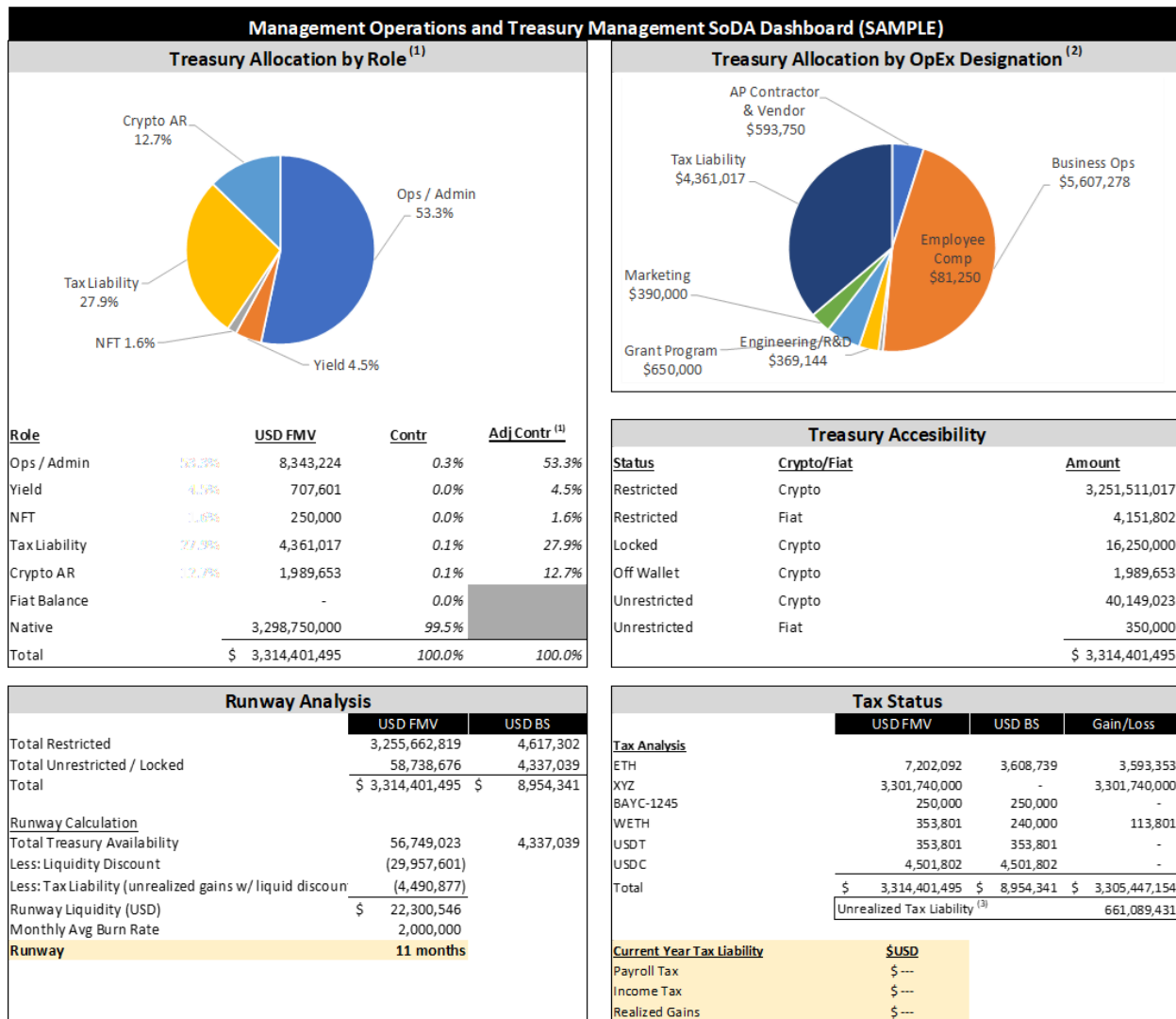
The Statement of Digital Assets was first developed for management operations along with Treasury Planning & Analysis to support finance departments in running crypto related businesses.

Specific to this use case SoDA is focused on the following:

- **Financial Planning and Analysis (FP&A) / Cash Planning** - The runway of an organization (or the number of months cash coverage of cash expenses) is a premier concern for any business, especially those pre-revenue or working to a sustainable revenue model. SoDA unlocks crypto nuances that might include use restrictions, liquidity discounts, and asset volatility to assess a firm's runway inclusive of crypto in fiat terms (the first view of runway should always be an assessment of cash expenses vs. cash on-hand, liquidity that includes digital assets should be tertiary). Additionally, SoDA provides better visibility for more efficient budgeting, forecasting, and scenario analysis as they relate to digital assets.
- **Tax Planning** – Revenue is recognized in fiat currency equivalent when goods or services are exchanged regardless if it is paid in fiat or with a digital asset. Taxes, however, must be paid on income in government-recognized fiat (the IRS does not accept digital assets as payment). As such, the finance team needs to know an organization's tax liabilities across all transaction forms and have confidence that the amount due is properly segregated and reserved in the treasury in the fiat or fiat equivalent stable coin in the owed currency.

- **Expense Control, Operational Security, and Wallet Hygiene** – Unlike bank accounts, wallets can be added very easily to the operations of a business dedicated to department specific – creating a significant opportunity for budget control while at the same time putting oversight at risk. SoDA provides a mechanism for greater transparency over all wallets associated with operations and also allows management to identify what wallets are supporting what departments or activities. Finally, including SoDA as a part of a monthly financial review allows management to ensure they are looking at the ‘full wallet picture’.
- **Yield Management** – There are many ways a crypto related business can find returns on digital assets in their treasury. SoDA clearly identifies yield-bearing Wallet/Asset Pairs and can identify risk, tax, and interest/yield associated with those allocations. Downstream analysis can detail the success (or failure) of specific yield strategies or as a part of an aggregate analysis.
- **Regulatory and Compliance Readiness** – “Regulatory uncertainty” has become a common refrain in crypto-based circles, however, the need for regulatory clarity and compliance is paramount. Standardized reporting can help the organization comply with relevant accounting standards and regulatory reporting related to digital assets. Data requests from regulators easily gleaned from SoDA can reduce the risk of non-compliance penalties, fines, and reputational damage, and contributes to a more efficient and effective reporting process.
- **Investor Relations and Readiness** – Communication with existing and potential investors is critical. Information rights have long been a fundraising contingency among venture investors. When preparing for a new funding round, accurate and easily procured financials are essential for due diligence that will aid in valuation and also demonstrate that the ‘financial house is in order’. SoDA helps existing and prospective investors better understand the company's digital asset strategies and make more informed investment decisions.

The goal for any FP&A practitioner is to spend the 80% of their time analyzing data (the ‘A’ in the acronym) for actionable insight, unfortunately all too often the inverse of this ratio is true with the majority of time spent gathering, cleaning, and proofing data. The following sample SoDA dashboard represents how a well organized SoDA can drive a standardized reporting package that supports an organization's specific KPIs and other critical data points. This type of dashboard can also be tailored to support the other use cases detailed later in this section.



⁽¹⁾ Excludes Fiat Balance and Native tokens.

⁽²⁾ Excludes Non-Ops and Native Treasury.

⁽³⁾ Capital gains tax liability assumed at 20%.

Management Ops Dashboard: Data from SoDA can be built into a management dashboard that will inform treasury allocation, restricted treasury, runway, tax liabilities and other core KPIs.

Investor Reporting and VC Diligence

Two financial reporting challenges that are commonly experienced by organizations include timeliness of accurate accounting data and variances between GAAP requirements and management reporting needs. Both of these challenges can be further exasperated in businesses that transact with and/or hold material digital assets.

In addition to routine and ad hoc investor and Board communications, most investors require some regular cadence of basic financial reporting from their portfolio companies through information rights reflected in their deal terms. A typical requirement, depending on the stage of the company, may include quarterly financial statements (balance sheet, income statement and cash flow statement), an annual budget (including runway estimate), and audited financials. Under the current guidance, evaluating the

liquidity or operating runway of a company with material digital assets on the balance sheet can be difficult and problematic. For example, a company may hold a digital asset balance that is marked at an impaired value under GAAP that is significantly less than what the liquid fair market value would indicate. How should the company, and the investors, think about runway, capital needs and resource allocation when they're not able to rely on the asset values represented on their balance sheet? Additionally, if a company reports a summarized balance sheet, it isn't clear what accounts and assets exist in their asset values. In a crypto-related company, the detail of the asset accounts can reflect much more interesting insight than a traditional balance sheet. Not all companies will label the accounts on their general ledger in a way that reflects the nature of the holdings, nor will they typically include the full list of accounts on their general ledger in their reporting, making it difficult to know what's held in each category.

Digital asset values should be taken in light of their relative risk to traditional reserve currencies. Regardless of your belief in digital assets, historical volatility and fiat denominated costs require conservatism: it's recommended to always calculate runway with fiat first. However, a company's strength, or lack thereof, is definitely not fully reflected with the current treatment of GAAP. Investors have often asked crypto companies informally for a treasury statement, or a fourth financial statement – the fair value of everything in your treasury, including all liquid and non-liquid digital assets – which is similar in spirit and intent to the SoDA.

An industry standard, like the SoDA, that could be added as part of the normal course of financial reporting would be a very valuable best practice for companies to adopt and investors to require.

Auditability

Auditability of the digital asset holdings and activity of an organization is a significant and straightforward benefit to a company or organization that makes use of SoDA and related reporting. By “auditability,” we mean an auditor's ability to provide a clean opinion on the relevant financial statements after obtaining reasonable assurance that the financial statements are free of material misstatement.

To better understand the benefit though, we need to understand that one of the biggest challenges to the audits of companies in the digital asset sector is the inability to gain visibility into the audit client's on-chain balances and activity. On-chain activity comes in many forms, but depending on which blockchains, smart contracts, and digital assets are relevant, and what type of activity is involved, an auditor's ability to obtain and test these balances and activity can be significantly complicated. This complexity is true for both on-chain activity which the client controls themselves and also for activity the client has engaged a third party to do in its stead.

Of course an auditor itself will need to have developed the competency, methodology, and tooling to independently confirm a client's material activity, but if the client is not itself able to capture this data, then there is little hope for an auditor to validate it in the course of a typical external audit.

The benefit to auditability, then, is that any entity with the ability to reconcile and record their on-chain balances and activity via their wallets, asset holdings, and asset use/purposes as mapped out by SoDA will have, by evidence of that effort, shown to have developed the internal processes of sufficient rigor to support third-party review. And these more granular internal processes will more readily admit of being documented and controlled. Specifically, it is these internal processes – as they relate to financial reporting – that are precisely the measures which fall within the scope of a financial statement audit. The

better these processes are designed, documented, and paired with controls that mitigate the risk of these processes failing, the more easily that an entity's financial statements may be audited.

Tax Preparation

The expanding world of digital assets has introduced an array of complexities to tax planning and return preparation. For tax accountants serving the crypto industry, gaining deeper insights into digital asset transactions is not just beneficial—it's pivotal.

Tax accountants need certain fundamental data points to perform the calculations necessary for income tax purposes. As currently structured, not all crypto transactions are taxable. A transfer of crypto from one user-held wallet to another does not trigger a taxable event, whereas selling crypto for fiat, exchanging one token for another, or receiving crypto as payment or rewards does. A source of truth is needed to validate these transactions and provide visibility into the details needed for what can be complex calculations. SoDA and its related reporting present the structure and insights that tax accountants need to differentiate between taxable and non-taxable events more easily, as well as to determine the cost basis of a digital asset sale or exchange. This is essential for calculating both realized and unrealized gains or losses.

Central to SoDA's presentation is the aggregation of period over period transactions by token. As a tax accountant, we can use this to plan for the tax consequences of planned or executed transactions, as well as delve into potential tax loss harvesting or other sophisticated strategies.

We know that digital assets can generate income in various forms, including staking rewards, mining income, interest from decentralized finance (DeFi) platforms, and airdrops. Transparency into these streams, in an organized manner, helps to ensure they are reported correctly, as each transaction type may have different tax implications.

With these advanced insights provided by SoDA, tax accountants can strategize better. Whether it's optimizing the timing of dispositions, harvesting losses to offset gains, or planning for potential future tax rule changes, data-driven insights from SoDA can lead to more informed decisions. Such insights empower tax accountants to offer value-added services, ensuring accurate tax return preparation while navigating the intricacies of the crypto world confidently.

Real World Asset Reporting

When President Eisenhower signed legislation on September 14, 1960, it can be reasonably inferred that tokenization or blockchain technology was not contemplated at that time. Both Real Estate Investment Trusts (REITs) and tokenized Real-World or Off-Chain Assets (RWAs or OCAs) offer avenues to real estate investment. REITs serve as dividend-paying entities managing property portfolios, whereas tokenized RWAs leverage blockchain technology for a digital representation of assets, thus facilitating benefits such as increased liquidity, fractional ownership, and enhanced transparency. While both avenues democratize access to property investment, tokenized RWAs extend this democratization further through the capabilities of blockchain technology, offering a more accessible, efficient, and transparent investment model compared to conventional REIT structures.

Real-World or Off-Chain Assets (RWAs or OCAs) represent assets that do not reside on a blockchain, yet ownership rights can be assigned to a token. These assets can be broadly categorized into: 1)

Real-World Assets, encompassing highly illiquid, bespoke assets like real estate, art, collectibles, and intangible assets such as carbon credits; and 2) Financial Assets, which involve creating tokens that represent existing financial value like money, stocks, and commodities. Tokenization presents opportunities for blockchain technology to address traditional challenges such as lack of transparency and liquidity, and to improve the efficiency of holding real-world assets on investor balance sheets by potentially reducing liquidity capital asks and facilitating the collateralization process.

Analysts from Citigroup forecast a significant potential for tokenized digital securities, predicting that between \$4 trillion to \$5 trillion could be issued by 2030. However, current GAAP balance sheet reporting of RWAs, as per FASB ASU 2023-08, requires these assets to be accounted for at the lower of cost or impaired value. This approach lacks transparency, offering little visibility into the underlying assets or their fair market value, and does not adequately convey the risk profile or the full benefits of capital efficiency, democratized access, and infrastructure cost reductions.

The Statement of Digital Assets (SoDA) stands as a critical tool in GAAP balance sheet reporting, especially for entities holding real-world assets. SoDA introduces a transparent framework that seamlessly integrates tokenized assets into traditional financial narratives, significantly enhancing the visibility of holdings and their fair market value. This transparency is crucial for stakeholders, including investors and operators, enabling informed decision-making. By aligning with GAAP reporting principles, SoDA not only facilitates streamlined investor and stakeholder reporting but also lays the groundwork for fair value (FV) reporting methodologies and aids in clarifying tax liabilities, ensuring a comprehensive understanding of financial responsibilities. The adoption of SoDA in GAAP balance sheet reporting marks a considerable step towards the broader acceptance of real-world or off-chain assets, heralding a more inclusive and transparent financial ecosystem.

Institutional Adoption and Reporting - Reducing Cost and Delivering Staying Power

A common misconception of digital asset reporting is: “With blockchains, all financial data is immutable and permissionless, so there is no manual accounting or finance work to do.” The source data indeed is permanent and open; however, reporting on elements such as total assets, valuation, tax realization events, and value flows is an incredibly new and un-framework-ed area of accounting and finance for digital assets. Delivering these cross-functional reports efficiently is a differentiator for institutions.

For institutions that hold digital, most accounting and finance teams generally produce bespoke reports, via ad-hoc own source documents, working files, and information to generate required managerial and financial records. This approach is inefficient, creates information silos, often yields different outputs – is generally not sustainable.

SoDA directly addresses this problem statement by offering a unified reporting framework (efficiency) built for the long-term (enduring reliability).

Efficiency: Instead of having the accounting team generate one-off financials and the operations team using bespoke inputs for strategic planning, the soda reporting platform offers a solution that provides critical outputs for both teams. The output delivers business intelligence, an auditable work product, and flexibility to report under the relevant fair value accounting rules. By using one reporting product, costs to generate business information decrease, Early adopters of SoDA are already realizing the benefits of this unified reporting approach, with one case study evidence a material reduction in accounting costs and

FTE headcount savings⁶. The efficiencies created in the back office not only lower the hurdle for institutional adoption of digital assets, but enable the business to allocate resources towards higher-value strategic initiatives, underscoring the cumulative benefits

Enduring reliability: SoDA provides a robust solution for the dynamic and complex reporting needs of digital asset management. It stands as a pivotal bridge between GAAP reporting and the nuanced world of digital assets, offering detailed support by listing every wallet and asset combination with their business use or purpose, and calculating fair market value for a rational sense of liquidity. This comprehensive approach ensures that SoDA is not just a solution for today's assets like BTC and stablecoins but is also meticulously designed to accommodate the future's diverse digital assets, including NFTs, DeFi activity, and real-world assets. SoDA's adaptability and forward-thinking design underscore its capacity to evolve with the digital asset landscape, giving adopters a long-term confidence that this approach will meet the business needs of tomorrow.

For implementers of SoDA, the framework offers adopters long-term operational efficiency and in embracing SoDA, businesses are not just adapting to the present but are positioning themselves at the forefront of financial reporting innovation for the digital asset space. This framework's ability to evolve with the market's demands ensures that adopters are ready to support digital assets with confidence and efficiency.

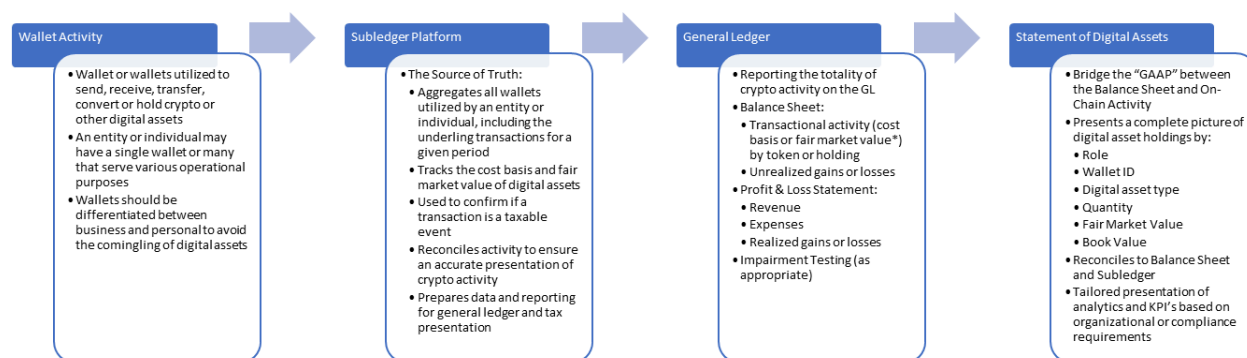
⁶ <https://integral.xyz/case-studies/delphi>

VI. Additional Considerations

The Process of Building a Statement of Digital Assets

The number of businesses that operate with digital currencies and digital assets is increasing at a noticeable rate as these instruments move into more parts of finance, trade, and commerce. Businesses are using crypto in a number of ways including receiving and/or distributing digital currencies or assets in the process of generating revenues, obtaining investment, receiving or providing loans, paying for cost of sales, payroll or operating expenses, purchasing assets, and most other uses of traditional currencies and assets. These businesses may also mint native tokens, putting some in circulation and holding others in reserve.

It is the finance team's responsibility to manage and close the books, evaluate the performance of the business, determine and record tax exposures, manage the treasury, and perform financial planning and analysis functions. The finance team will need to effectively communicate the balances and analytics related to these digital assets to management, investors, tax partners, auditors, and numerous other internal and external parties. These tasks can be accomplished via a multi-step process, an example of which is summarized here, the sum of which can result in a well-qualified Statement of Digital Assets.



Wallet Activity

Creation of an accurate Statement of Digital Assets starts with the wallets of an organization or individual. These wallets are utilized to send, receive, transfer, convert, and/or hold the digital assets of that organization. An entity may have a single wallet or multiple wallets which serve unique organizational purposes. Maintaining proper wallet hygiene – which is the understanding of and related documentation detailing the uses of each wallet and its underlying transactional activity – is one of the first steps in preparation of the Statement of Digital Assets. This step is also key to determining that there are no commingling of digital assets between the organization and any outside/non-related parties.

Subledger Platform

A critical second step is to record and make sense of any and all digital transactions and account balances. A crucial tool in this area is the use of a crypto-focused subledger that can perform the bulk of the data collection, aggregation, and organization of all on-chain and offchain activity. The subledger acts as an aggregator of wallet activity and allows for the tracking of cost basis for acquired digital assets,

arriving at the fair market values of digital assets at a given point in time, and reconciling and tagging digital asset activity, along with pushing this activity and resulting balances to the general ledger. The subledger can also provide operational data and tax reporting for internal or external use.

General Ledger

Once reconciled, digital asset activity can be pushed from the subledger to the general ledger. This data upload may be in batches or at the transactional detail level depending on the needs or requirements of the platform or organization on a case-by-case basis, but should represent a totality of digital asset activity for a given period of time. If transactions are tagged and recorded properly in subledger, then the Balance Sheet should represent the current balance of digital asset holdings in compliance with Generally Accepted Accounting Principles as well as any unrealized gains or losses. Any revenue, expense or realized gains or losses should also be represented on the Profit & Loss Statement. Impairment testing may be required as determined by financial reporting regulations.

Statement of Digital Assets

Data from the subledger and the general ledger will be utilized in order to populate the Statement of Digital Assets. This combined output allows for a complete picture of digital asset balances and activity for the reporting period and bridges the “GAAP” between the Balance Sheet and on-chain activity. Said another way, it is a common sense approach to how the balances presented on the GAAP-basis Balance Sheet tie to wallet holdings and activity.

On the Statement of Digital Assets, digital assets are organized by wallet, asset type, and role. The quantity of tokens, fair market value and book value for the period are presented and the book value is reconciled back to the Balance Sheet. Based on this presentation, other key performance indicators including unrealized gains or losses, portfolio holdings by token, summary by role, yield, liquidity, and tax scenario analysis may be tailored.

The breakdown by wallet, asset, and role lets the finance team clearly visualize the full 'build'. It also enables a non-accountant to reconcile and effectively bridge what is on the balance sheet from a GAAP perspective with what exists on-chain, ultimately answering the question – how do we properly report a more complete picture of the digital assets on the balance sheet.

The Need for a SoDA Rollforward

Being able to analyze the period-over-period movements of digital assets is a fundamental requirement for businesses that hold significant amounts of crypto on their balance sheets. It's not enough to simply see the beginning and ending balances of token units (the “token balance sheet”). Management and investors are entitled to the full story of how their crypto assets moved in and out of wallets, across different blockchains and off-and-on USD rails (the “token pnl”).

Imagine a new business that starts the year off with no crypto holdings. During the year, they spin up a validator, earn staking rewards, pay some vendors in stablecoins, eventually wind down the validator and convert all of their token holdings to USD. It's an extreme example, but their beginning and ending crypto balances would both be zero - which tells us nothing about the purpose or activities of the organization! Readers of financial statements need further context about all the additions and dispositions of crypto assets in order to comprehend the full picture.

Enter the crypto asset rollforward. Per the new FASB guidelines, companies are required to produce an annual rollforward (in USD) that contains the following parameters:

- Beginning value of tokens
- Additions (and descriptions of those additions)
- Dispositions (and descriptions of those dispositions)
- +/- Gains & losses
- = Ending value of tokens

The FASB rollforward provides a map to decode digital asset activity that occurred during the year. However, the SoDA rollforward takes this one step further and incorporates details such as wallet identification and purpose, segregation of customer-held crypto and more detailed buckets of additions and dispositions.

The SoDA rollforward is meant to analyze change in token units instead of USD value. We believe company operators and management speak in the language of actual tokens instead of convoluted translations to USD, which include noise such as impairment and fair value adjustments. The USD version is of course necessary to comply with US GAAP and is used by the finance department, but a rollforward in tokens is easily understood by all. The SoDA rollforward should be completed on a monthly or quarterly cadence, which gives more real-time information as compared to the annual FASB requirement. The SoDA rollforward looks something like this:

Wallet ID	Asset	BOP		Change in Assets								EOP			
		2024	Qty	Revenue	COS	Expense	Acquisition	Disposition	Grants	Staking	Minting	Transfers	Net Change	Qty	
Hot Wallet	ETH	1,176				-100		350					-250	0	1,176
Contractor Payments	ETH	49												-25	74
R&D	ETH	59												0	59
Public Goods / Grants	ETH	98								-10				-10	108
Misc-Ops	ETH	25									5			5	20
Custodied Trading Account	ETH	303												0	303
Trading Account	ETH	82					350	-200						150	-68
Customer Deposits	ETH	10												0	10
Revenue Collected Tranche 1	ETH	245		200									250	450	-205
Revenue Collected Tranche 2	ETH	294												0	294
Revenue Collected Tranche 3	ETH	343												0	343
Revenue Collected Tranche 4	ETH	186												0	186
NFT 1	BAYC-1245	1												0	1
Native Token - Uncirculated	XYZ	10,000,000				-200,000					250,000			50,000	9,950,000
VESPER-USDC	USDC	477,000												0	477,000
DeFi Wallet / Treasury	SLP-USDC-WETH	1												0	1
SLP-USDC-WETH	USDC	353,801												0	353,801
SLP-USDC-WETH	WETH	1												0	1

With this format, management can - at a glance - see how their how tokens were generated, disposed of and invested, and what tokens also double as liabilities (i.e. token-denominated loans, customer-held tokens). The USD rollforward is provided for compliance purposes, but the real insight-generator is the detailed version of {beginning units + additions - dispositions = ending units}. It's a simple but powerful tool that gives insight into several aspects of a business, including treasury, operations, finance, and sec ops.

The best part is that most crypto subledgers provide this token rollforward already - with a few clicks, accountants can generate this report whenever they need it. The rollforward is also a critical audit and internal controls document as well. If the token rollforward is wrong, you know the USD rollforward (and by extension, the USD financials) are also incorrect.

As you can see, the crypto rollforward is having its moment, both in the US GAAP spotlight and in crypto companies worldwide. It's easy to produce, easy to read and easy to explain - all the qualities of an excellent financial statement!

VII. Conclusion

Crypto is evolving at a breathtaking pace, and such a pace can not help but create new challenges. Accounting for crypto activity has left businesses and organizations that interact with digital assets with the challenge of fitting the square peg of digital assets into the round hole of traditional financial reporting. The inadequacies of current GAAP practices in capturing the essence of digital assets have left stakeholders navigating a foggy terrain, and face even more complexity when it comes to reporting as accounting guidelines gain clarity.

The Statement of Digital Assets (SoDA) – is attempting to be a beacon of clarity in this mist. SoDA's primary mission, as we've explored, is to bridge the chasm between on-chain activities and GAAP balance sheet reporting. By providing a transparent lens through which to view digital assets, SoDA demystifies the often-opaque balance sheets, offering stakeholders a clear picture of a firm's liquidity and digital asset holdings.

A pivotal takeaway from our exploration is the nuanced distinction between book value and fair market value. This distinction, while seemingly technical, holds profound implications for how businesses perceive and report their digital assets. With potential shifts on the horizon for digital asset reporting guidelines, SoDA's relevance is underscored, poised to adapt and serve as a consistent guidepost.

Looking ahead, the implications of SoDA extend beyond mere reporting. As digital assets continue to permeate various sectors and redefine traditional business operations, tools like SoDA will play a crucial role in shaping the financial narratives of the future. It's not just about accurate reporting; it's about fostering trust, transparency, and understanding in a digital age.

In closing, we urge businesses, financial aficionados, and all stakeholders in the digital asset ecosystem to embrace the SoDA framework. Its collaborative genesis speaks to its universal appeal and potential. As traditional finance and digital assets become closer aligned, SoDA can help ensure that the financial stories we tell are clear, accurate, and illuminating.

We look forward to hearing from you at: whitepaper@sodafinance.xyz.