



June 25, 2021

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

RE: Agenda consultation ITC - accounting for digital assets

Dear Ms. Salo,

We appreciate the opportunity to provide input regarding potential future agenda items to be addressed by the Financial Accounting Standards Board in their upcoming deliberations. We appreciate the work of the FASB and its staff members in addressing areas of increasing concern while considering the needs of the many stakeholders and users of financial statements.

About TaxBit

By way of introduction, TaxBit is a data and analytics technology company that specializes in financial reporting and tax compliance for digital assets. We assist consumers, enterprises, and governments as they navigate the complexities of digital assets - specifically, the challenges of accurately reporting taxable gains and losses of digital asset activities along with following reporting guidance under US Generally Accepted Accounting Principles. Our industry leading tax and accounting platform is used by the leading exchanges, payment processors, and government organizations around the world, including the IRS. As one example of our scope and reach, in the last year we filed more than 2 million 1099s on behalf of retail and enterprise clients.

Overview and industry dynamics

As an organization consisting of CPAs (including former FASB staff), attorneys, and technologists who assist and represent a wide variety of clients engaged in the digital asset space, TaxBit requests that the FASB add a topic to its Technical Agenda to address accounting for digital assets, including the recognition, measurement, presentation, and disclosure of these assets.

We recognize that the FASB briefly addressed the issue of accounting for crypto assets in October, 2020. At that time, the Board unanimously voted not to add digital assets to its technical agenda and sighted as the primary reason that the concerns raised were not pervasive enough.

Since the timing of those deliberations, we believe that there is a growing and significant need for the FASB to provide more tailored guidance regarding the accounting of digital assets. The



following list illustrates some of the reasons why we believe the time is now right for the FASB to address this topic:

- There is a rapidly growing list of market participants, including enterprises, investors, influencers, government bodies, and SEC filers that are becoming involved in the industry and are actively engaged in digital assets. While there are many metrics to illustrate this, the pace of investment by enterprises is telling. In 2021 alone, venture capitalists have invested more than \$17 billion into digital asset companies. There are now more than 30 publicly traded companies holding Bitcoin on their balance sheets, with a dozen of those filing in the US. Fortune 500 companies are now exploring, developing, and implementing the use of digital assets and blockchain technology at an increasing pace. While the most common application to date of blockchain technology is cryptocurrency, other asset classes - including equities, commodities, real estate, etc. - are also being included in a digitized/tokenized economy.
- The depth and breadth of consumer facing products and services is expanding at an increasing pace - and with that expansion comes a rapid increase in the number of enterprises and SEC filers who are also expanding their involvement. These include lending and borrowing activities, insurance and payment processing, and more. For example, consumers can now easily use their digital wallets to make everyday transactions through Google and Apple Pay by using a Coinbase debit card. Visa and PayPal are also enabling digital transactions at a much larger scale. In addition to payment processors, large enterprises and merchants are also beginning to accept digital assets as payment. Some of the more notable companies currently accepting cryptocurrencies as payment include Microsoft, Overstock, Dell, and Whole Foods. The continued adoption of digital assets as a store of value and a means of payment creates an increasing need for businesses to have targeted accounting guidance to appropriately report digital asset activity in their financial statements.
- The pace of global adoption of digital assets is rapidly increasing. Not only are large global businesses (many of which are US-based SEC filers) increasing their involvement in and exposure to digital assets, but state and local governments across the United States, and governments across the world, are doing the same. In the US alone, more than half of all states have now introduced legislation promoting the use of digital assets and blockchain technology. Internationally, dozens of countries are now considering or introducing legislation to promote the use of digital assets, and in some cases countries are even considering certain digital assets as a form of legal tender. This expansion further illustrates the importance of digital assets and the need to create accounting literature tailored to this asset class.
- Lawmakers and regulators are also recognizing the importance of and potential for digital assets. Earlier this year, the Office of the Comptroller of the Currency issued a statement essentially allowing national banks to provide custody services for digital assets. Last month, seven members of the United States Congress petitioned the FASB to include digital asset accounting to its agenda. These are just some examples that illustrate the growing demand and need for the FASB to provide authoritative guidance related to digital assets in order to ensure the consistency and high quality of our financial reporting system.
- There is no disputing that blockchain technology is one of the most innovative and transformative technologies of our day. With the rapid pace of innovation and the expanding application of digital assets, accounting standards need to be developed to further promote and inform this innovation while providing a framework for companies to work within and communicate financial performance.



Current challenges

Under current accounting guidance, digital assets and cryptocurrencies do not meet the definition of cash, inventory, or financial instruments. As a result, these assets are accounted for using the indefinite-lived intangible asset model in ASC 350. This model requires that assets be held on an entity's balance sheet at cost with regular impairment analysis performed. In the event that an impairment occurs, the asset is written down with any downward changes in value reflected in a company's income statement as a loss. If, subsequently, the asset were to recover previously impaired losses, the company is not able to recognize the increased value or gain on its financial statements. The exception to this general rule is if a company is classified as an investment company or broker dealer, in which case they may account for digital assets at their fair value. This accounting approach is further articulated in the Practice Aid published by the AICPA's Digital Asset Working Group, which many stakeholders refer to and rely on in their accounting for digital assets.

The current accounting approach applied to digital assets explained above creates meaningful challenges for companies dealing with digital assets. Specifically, it often leads to a mismatch between an entity's economic activities and position and how that position is reported in a company's financial statements. For example, if a company holds Bitcoin that was purchased when the price of Bitcoin was \$35,000 and there is a subsequent decline in value to \$30,000, that company will report a loss during the period, even if the price of Bitcoin at the end of the period is \$40,000. Another common example is experienced by companies that elect to buy and hold digital assets. In this case, a company could have purchased Bitcoin several years ago when the price was significantly lower, and even though that asset is liquid and convertible to cash at a much higher value, the company is disallowed from reporting its holdings in Bitcoin at its current value. This misalignment between a company's economic position and its accounting for that position can be misleading and confusing to the users of financial statements.

TaxBit view

We believe investors and users of financial statements would be better served with improved accounting guidance as it relates to the recognition, measurement, and presentation of digital assets. We believe this objective could be served by adopting an accounting model where digital assets are recognized and reported at their fair value, with any subsequent changes in fair value flowing through the income statement. This model could be aligned with how investment companies and broker dealers are allowed to account for digital assets and would be a more faithful representation of the economic realities of these assets. Such an approach would also provide users of financial statements with better and more accurate information with which to make investing decisions.

Conclusion

We appreciate the opportunity to share our perspective and request that the Board add a topic to its Technical Agenda to address the accounting for digital assets, including the recognition, measurement, presentation, and disclosure of digital assets. We believe that guidance could be readily developed that is a better reflection of the economic realities of these assets and that would also provide more accurate and useful information to users of financial statements. Further, we believe that given the rapid pace of global growth, adoption, and innovation in the digital asset space, the time is now right for the FASB to address this important topic.



We appreciate the Board's consideration of this issue and would welcome the opportunity to discuss our position - and to share the perspective of our clients - with the Board and its staff. Should you have any questions regarding our request, or any of the contents herein, please feel free to contact us. We look forward to continuing the discussion.

Sincerely,

Aaron Jacob
Head of ERP
aaron.jacob@taxbit.com | 801-368-6846

