July 15, 2021
Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2021-004 – Agenda Consultation ITC

Dear Ms. Salo:

I appreciate the opportunity to comment on the most recent Agenda Consultation set forth by the FASB. I applaud the FASB and their effort of continual improvement in addressing the issues that arise within GAAP and the accounting industry. Having the chance to express opinions is an important part of the industry and the public discourse is very helpful in improving any relevant areas. That said, within this letter, I think a very substantial (and controversial) change needs to be made regarding the accounting of digital assets, specifically cryptocurrency.

It is important for the fast-moving industry of cryptocurrency that the accounting rules keep up with the changes. Currently, as defined by the FASB, a company must record their cryptocurrency (digital asset) as an intangible asset. The FASB defines an intangible asset via ASC 350-10-20 as follows: "Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill)". The problem with this that many investors and holders of digital assets have, is that the value of these assets must be written down when they see a decrease in value. However, the gain cannot be realized if there is an increase in value of these same digital assets. With the way the market is moving and the frequency in which cryptocurrencies are used and adopted worldwide, that classification of the digital assets is fundamentally flawed.

The FASB, AICPA, or IFRS do not directly address digital assets or cryptocurrency and how to account for them. In a notice from Deloitte titled *Classification of cryptocurrency holdings*, they further define the accounting for cryptocurrency: "The guidance in U.S. GAAP does not currently directly address the accounting for cryptocurrencies. For the reasons explained below, we believe that cryptocurrencies should generally be accounted for as indefinite-lived intangible assets under ASC 350; however, there may be limited circumstances in which cryptocurrencies are (1) held for sale in the ordinary course of business and thus considered inventory (as in the case of a broker) or (2) accounted for as an investment by an investment company.

The ASC master glossary defines intangible assets as "[a]ssets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)" Cryptocurrencies are not financial assets because they are not cash, an ownership interest in an entity, or a contract establishing a right or obligation to deliver or receive cash or another financial instrument. Since they lack physical substance, they are generally considered intangible assets" (Deloitte & Touche, *Classification of cryptocurrency holdings*

Financial Reporting Alert 18-9, July 2018). Because of the lack of guidance from these regulating bodies on digital assets, companies are forced to account for them in a way that does not accurately reflect their fair market value, which may be misleading to investors and/or other stakeholders. The methodology that digital assets are considered intangible assets, is that they are deemed to have no intrinsic value as they are not backed by any established currency like the US dollar is. But one could argue that the supply and demand of these assets and that they are bought and sold creates a market for them, giving them an intrinsic value. And being able to classify these digital assets as something other than intangible assets, will make for a more accurate accounting system for them and also more accurately reflect their fair market value. Cryptocurrency should be able to be accounted for at market value by the companies who hold them. There should be highly regulated cryptocurrency exchanges that can operate in real time as other foreign exchanges do around the world. By doing so, the market for digital assets can become a more regulated area, which has been a cause for much concern as many investors feel that the lack of regulation within the crypto market makes for a risky investment.

More recently, there has been an interpretation in the FASB code that would allow investment companies to value their cryptocurrency at fair market value on their financial statements. Ernst and Young recently published a paper explaining this methodology: "While cryptocurrencies meet the definition of an intangible asset under ASC 350, investment companies in the scope of ASC 946 may invest in cryptocurrencies as an asset class for purposes of capital appreciation. Investment companies generally account for their investments in cryptocurrencies as "other investments" under ASC 946-325. Under that guidance, these investments are subsequently measured at fair value through profits or losses" (Ernst & Young, *Technical Line A holder's accounting for cryptocurrencies*, October 2018). They further define a fair value measurement of cryptocurrency: "A fair value measurement is required for accounting purposes when a cryptocurrency is (1) held as an "other investment" by an investment company in the scope of ASC 946 or (2) held by an entity that is not an ASC 946 investment company as an intangible asset when fair value measurement is required (e.g., an impairment analysis is required by ASC 350). How an entity measures the fair value of a cryptocurrency will depend on whether the principal market is active (i.e., transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis) and whether the entity can access the principal market on the measurement date. While the most common cryptocurrencies (e.g., Bitcoin, Ether) are currently considered to be actively traded on exchanges or over-the-counter markets, other cryptocurrencies may not be" (Ernst & Young, *Technical Line A holder's accounting for cryptocurrencies*, October 2018). This is a better way of valuing these cryptocurrencies, but it is only a start as certain guidelines must be satisfied in order to account for them under this code section, and it mostly applies to investment companies with cryptocurrency holdings.

The appendix contains replies to the *Questions for Respondents* and other remarks that expand on the above comments for the Board's consideration.

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Appendix:

Question 10: Investors—How significant are holdings in digital assets, such as crypto assets, in the companies you analyze? What type of financial reporting information about holdings in digital assets do you use in your analysis of a company? How does that information influence your decisions and behaviors? If there is other financial reporting information about digital assets that would be decision useful, what is that information and why would it be decision useful?

From my experience as an analyst at a public accounting firm, companies have dramatically increased their crypto assets within the past year. The market has exploded with different digital assets and dozens of different cryptocurrencies, to the point that many companies are shifting their most recent investing strategies to only target digital assets, especially cryptocurrency. This behavior has caused our firm to be more conservative in the approach to handling these companies and their digital asset holdings. Being very limited in the methods in which we can account and value these assets and holdings, we have found it important to take a conservative approach with companies who are heavily invested in these assets. Other financial reporting information that would be decision useful is the amount of impairment loss companies must take with large holdings in cryptocurrency and whether or not they have any other investments in different areas to offset those impairment losses, as we cannot recognize any gains from those investments.

Question 11: Preparers and practitioners—Does your company (or companies that you are involved with) hold significant digital assets, such as crypto assets? What is the purpose of those holdings?

In a recent paper released by Deloitte, they give an example of a company that has recently invested heavily in cryptocurrency and give examples of the growing market. They write: "One telling example is MicroStrategy Inc., which announced, last December, that it had made more than $1B in total Bitcoin purchases in 2020, a move that it characterized as an investment that would "provide the opportunity for better returns and preserve the value of our capital over time compared to holding cash." Some companies have followed suit, and others may now be wondering how to invest in Bitcoin and other digital assets. There are a variety of reasons for adding digital assets to a company's balance sheet, whether it's seeking asymmetric risk return observed over previous years or as a natural hedge against fluctuating fiat currencies; whether it's part of a corporate strategy to embrace modern, open technologies; or as a complement to an operational strategy that includes accepting digital assets as payments" (Deloitte & Touche, *Corporates investing in crypto: Considerations regarding allocations to digital assets*, 2020).

Within the last year, especially since the start of the COVID pandemic, many companies like the one above have invested in cryptocurrency and digital assets. The growing demand for these cryptocurrencies has caused dozens of new cryptocurrencies to launch and enter the market to keep up with the high demand. Many companies believe that these crypto investments will be beneficial long-term investment strategies as the way they are accounted for will eventually catch up with the times. But after the most recent decision by the FASB to not further look into updating the guidelines, the question may be asked if those guidelines will ever catch up. Because of the fluidity of digital assets and the constant fluctuation of their value, it may be difficult to implement these real time cryptocurrency exchanges as mentioned above. But it is not impossible. It may just take more resources allocated by the FASB and the IAS/IFRS to put projects together and research possible solutions. It is clear that the digital asset market is not going anywhere. And there may come a time in the not-so-distant future where the glaring need for change in the regulation will no longer be able to be ignored.

Question 12: If the Board were to pursue a project on digital assets, which improvements are most important, what types of digital assets should be included within the scope, and should this guidance apply to other nonfinancial assets?

If the Board were to pursue a project on digital assets, the first and foremost improvement that would need to be made is allowing digital assets to be recognized as a tangible asset on the balance sheet, as either cash or a cash equivalent. It would be important to recognize the intrinsic value of these assets and to value/account for them accordingly, which would be beneficial to the market as a whole as they could be valued at their fair value on a consistent basis. Within the scope of the project, the biggest digital asset would need to be cryptocurrency. As cryptocurrency is the leader in the digital asset market and is the flagship item within the blockchain market. Other digital assets that should also be included within the scope are data and software and NFTs (non-fungible tokens) that have seen a huge rise in popularity in the recent year and the amount of investment they have been garnering. The guidance should focus on digital assets, and most importantly cryptocurrency, as the fluidity of the market and the more involved investment in these assets make it a priority for the FASB, IFRS, and AICPA to pursue projects relating to the improvements of the valuing and accounting of the market.

Being able to set guidelines and make sure these digital assets and securities are in compliance with all current regulations is important in the advancement of the digital asset market. The clarification of disclosures is also an important improvement to make for companies with investments or holdings in digital assets. EY states in a recent paper: “US GAAP does not specifically address disclosures for cryptocurrencies. As a result, entities need to provide disclosures required by the relevant accounting guidance (e.g., ASC 350, ASC 820). Entities should provide disclosures about risks and uncertainties and any loss contingencies, including for potential illegal acts, relating to their cryptocurrency activities. We believe that entities should also provide additional disclosures that would be useful to users of the financial statements in evaluating the effect of cryptocurrencies on their financial condition and performance. These disclosures may include (1) a description of the quantity and nature of its cryptocurrency holdings; (2) the accounting policies the entity applies (e.g., measurement basis); (3) the historical volatility of the cryptocurrency holdings; (4) the entity’s reason for holding those cryptocurrencies and (5) the risks associated with holding cryptocurrencies” (Ernst & Young, *Technical Line A holder’s accounting for cryptocurrencies*, October 2018). The updates in these disclosures would provide more clarity to investors and the market as a whole, which is beneficial for the market to continue to improve transparency.

I appreciate the Board’s time and consideration in this issue and would welcome any further discussion regarding anything covered in this comment paper. Please reach out with any questions or concerns.

Sincerely,

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