September 21, 2021

Ms. Hillary Salo, Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-51161
Via email: director@fasb.org

File Reference No. 2021-004

Dear Ms Salo,

BlockFi appreciates the opportunity to provide input regarding potential future agenda items to be addressed by the Financial Accounting Standards Board ("FASB") in their upcoming deliberations. We value the thoughtful and deliberate 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.

BlockFi Background

BlockFi operates as a digital financial services and lending platform with over 450 thousand clients and in excess of $10 billion in assets, as of June 30, 2021. Since our inception in 2017, we've originated over $20 billion in loans and facilitated over $13 billion in cryptocurrency trades for our customers. We build products that enable our clients to do more with their cryptocurrency and in line with broadening adoption of cryptocurrency we are seeing demand for our products rapidly increasing.

We are one of a growing number of institutions that provide financial products for both retail and institutional clients to access the cryptocurrency ecosystem. Specifically, we offer fiat loans to clients that want to use their cryptocurrency holdings as collateral. We offer loans denominated in cryptocurrency to institutional clients. We offer a bitcoin rewards credit card to US customers so they can spend fiat and earn bitcoin. We also facilitate clients trading of various cryptocurrencies.

Our funding operations are set up in a straight-forward 1:1 model. We borrow cryptocurrency from retail and institutional clients in exchange for the payment of interest, this allows these clients to earn additional yield on their holdings in exchange for BlockFi's right to rehypothecate that same cryptocurrency. If we borrow 1 bitcoin, we generally hold the bitcoin in a custodian account or we lend the 1 bitcoin out in a bitcoin denominated loan. Any volatility in the underlying cryptocurrency is offset by the corresponding asset or liability. We make money by lending out at a higher rate than we pay to borrow. This is a fundamentally simple business to understand economically and in turn it should be a fundamentally simple business to understand when reading our financial statements.

Presentation Challenges with Existing GAAP

Under current accounting guidance, digital assets, digital asset loans, and cryptocurrencies in general do not meet the definition of cash, inventory, or financial instruments. As a result, these assets are accounted for using Accounting Standards Codification ("ASC") 350, Intangibles—Goodwill and Other ("ASC 350"), under which digital assets generally meet the definition of an indefinite-lived intangible asset. There is a narrow exception to this general rule 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 was articulated in the Practice Aid published by the AICPA's Digital Asset Working Group, which we and many others rely on in their accounting for digital assets.

This accounting creates material challenges for BlockFi and puts us at odds with our responsibility to present meaningful financial information to our investors and users. There is a fundamental mismatch in the ASC 350 model between the accounting for digital assets and liabilities. As we do better economically, our financial results show the opposite. This is a sustained and growing issue obfuscating our financial results year-to-year and severely impacting our ability to transparently present financial information.

We regularly explain to our investors, regulators, bankers, clients, and others that under ASC 350 it may appear that we are experiencing GAAP losses, while financial performance is improving. Specifically, when we borrow digital assets and hold them in a 1:1 reserve ratio we see material deteriorations in our equity as the value of our liabilities to borrowers increases while our asset values are held static or are impaired due to market volatility. Additionally, when we take cryptocurrency collateral and just hold it, we incur losses as the spread between the collateral owed back to the borrower and the asset value widens. Current GAAP encourages risk by discouraging platforms like BlockFi from holding digital assets to match digital liabilities.

Onerous Costs Associated with Existing GAAP

Further exacerbating our reluctance to embrace the current ASC 350 model stems from its costly application. We incur a unique cost in accumulating the detail necessary to track the combination of cost basis and fair value data. Our platform processes thousands of inflow and outflow transactions a day. Each and every one of these transactions must be tracked and assessed for impairment or a gain/loss on disposal. Outside of reporting this periodically in the financial statements, no user has ever asked for this impairment data. Each day the complexity of tracking this data and our costs to house this data increases. Simultaneously the useability of this information further deteriorates. Our auditors, who users of our financial statements take comfort from, must attest to the accuracy of the rather onerous details necessary to account for a material crypto portfolio using ASC 350 and in turn take on the additional burden to audit these figures. A material misstatement of digital asset holdings will largely be meaningless to users of the financial statements given how little transparency the figure provides under GAAP.

Absent fair value data in our financial reporting, users are forced to use alternative data sources or non-financial statement data to arrive at the fair value impacts of our activities, thereby devaluing the financial statements reported under GAAP. To meet those needs we incur additional costs presenting non-GAAP measures and comparatives between these measures and GAAP results.

There is a clear path forward.

Potential Solutions

The way in which cryptocurrency is being used in practice is more like a fair value instrument than an indefinite life intangible asset. The accounting treatment should align accordingly.

If GAAP was modified to allow BlockFi an election to fair value digital assets, similar to the fair value option defined in ASC Topic 825, we see the majority of preparer and user concerns going away. Specifically, the confusing mismatch between digital assets and digital liabilities would cease to exist in a fair value model. We see added benefits in the adoption of a fair value option via the ability to apply a framework for disclosures concerning fair value levelling and fair value inputs in line with ASC Topic 820.

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 further discuss our position 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,

Rob Loban

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