UNIVERSITY OF MINNESOTA

Carlson School of Management

Vivian W. Fang
Associate Professor
Honeywell Professorship in Accounting
3-299 Carlson School of Management
321 19th Avenue S.
Minneapolis, MN 55455
Office: 612-301-9288
Email: fangw@umn.edu

September 22, 2021

Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2021-004 – Invitation to Comment: Agenda Consultation

Dear Ms. Salo:

We appreciate the FASB's invitation to comment on its agenda. The comments below are relevant to **Chapter 2: Emerging Areas in Financial Reporting**, a chapter that intends to cover emerging transactions that need to be considered, such as in cases where there is no specific topical authoritative accounting or disclosure guidance or in cases where the current accounting outcomes are not intuitive, to reduce diversity in practice, and to retain the relevancy of the Codification.

Specifically, we provide comments and analysis relating to the accounting and reporting issues of cryptocurrencies, which fall in the domain of Chapter 2. Corporate transactions in cryptocurrencies are emerging as companies are increasingly looking to expand into the crypto space by engaging in mining of cryptocurrencies, investing in cryptoassets (particularly Bitcoin and Ether), accepting cryptocurrencies as payments, or providing cryptocurrency trading services. Yet, there is no authoritative guidance that speaks directly to the accounting for cryptocurrencies, which has resulted in significant variation in recognition and disclosure methodologies both across reporting entities in a single period and within a single reporting entity from period to period.

In a recent study titled "Accounting for Cryptocurrencies" coauthored with Chelsea Anderson and Jonathan Shipman at the University of Arkansas, and Robbie Moon at the Georgia Institute of Technology, we examine a hand-collected sample of US companies with reported cryptocurrency holdings from 2013Q4 to 2021Q1. Our study yields several important findings that should be useful in assisting the FASB's agenda development.

To begin, our analyses show that public reporting entities' cryptocurrency holdings are rising in the US: The total amount of cryptocurrency holdings started around $16.3 million in 2013Q4, stayed relatively flat with an average amount of $19.8 million between 2013Q4 and 2019Q4, and quickly rose to $53 billion in 2021Q1. However, we note that the estimated aggregate value of cryptocurrency holdings is likely substantially understated either because some companies do not explicitly disclose their cryptocurrency holdings or because the accounting methodology applied resulted in a carrying value that is only a fraction of fair value. It is reasonable to suspect that some companies choose not to disclose their involvement in cryptocurrencies in the regulatory filings due

UNIVERSITY OF MINNESOTA

Carlson School of Management

to either immateriality or other unknown reasons. As an anecdote, PayPal Holdings, Inc. (PayPal) allows its customers to buy, sell, and hold cryptocurrencies through its platform, including Bitcoin, Ether, Litecoin, and Bitcoin Cash. In providing this service, PayPal not only acts as a broker by filling customers' trades but also controls customers' cryptocurrency holdings by managing digital wallets and storing private keys. Given the nature of this service, PayPal almost certainly holds some cryptocurrencies, but we find no disclosure of such holdings in the company's quarterly SEC filings during our sample period. In contrast, Square, Inc. (Square), which provides a similar service, has been disclosing substantial cryptocurrency holdings in its quarterly filings. We understand that in the past, the FASB has maintained the position that public entities' holdings of digital assets like Bitcoin and Ether are not sufficiently pervasive to warrant standard-setting actions. However, our results cast doubt on this rationale for two reasons. First, it is nearly impossible to estimate the landscape of corporate cryptocurrency holdings due to the lack of disclosure requirements. For this reason, it is tough to say whether the lack of pervasive cryptocurrency holdings observed in the US is because they do not exist or because they are inadequately disclosed. Second, even in the absence of an unbiased point estimation of the aggregate corporate cryptocurrency holdings, one can reasonably anticipate a trajectory of exponential growth based on our preliminary findings. To that end, we urge the FASB to consider developing authoritative accounting and/or disclosure guidance that directly addresses the accounting and reporting issues of cryptocurrencies.

More important, our analyses show that companies exercise significant discretion in accounting for their cryptocurrency holdings. We observe a switch from fair value accounting to accounting for cryptocurrencies as indefinite-lived intangible assets in 2018. This finding is not surprising given the switch happened around the time when the AICPA and "Big Four" accounting firms issued interpretive guidance that suggested treating cryptocurrencies as indefinite-lived intangible assets was the appropriate accounting. However, even for companies that follow this guidance, we observe significant variations in the assumptions used in the impairment tests. Throughout the sample period, firms predominantly used the price at the interim period-end as the trigger for impairment such that a write-down is needed when the period-end price falls below the carrying cost; this is the case for approximately 90% of firms using intangible asset accounting through 2019. However, we observe a shift toward using the lowest price since acquisition as an impairment trigger such that 68% of firms in 2021Q1 apply this assumption. Variations in the impairment trigger price across reporting entities make financial reporting less comparable and changes in the assumptions within the same reporting entity over time make reporting less consistent especially since cryptocurrency prices have been historically volatile. We also observe significant variations in the extent of supplemental fair value disclosures, which are voluntary under current standards. Such disclosures can range from a self-proclaimed point estimation of the firm's fair value of the cryptocurrency holdings to detailed information on the inputs used to determine the fair value (i.e., price and/or quantity) or even transactions. The location of the disclosures also varies across and within firms, which may be found in notes to the financial statements, the management discussion and analysis (MD&A) section, or the earnings conference calls.

We hope that the variety of reporting choices that we observe in the US firms' cost and fair value disclosures of their cryptocurrency holdings, made for either informative or opportunistic reasons, raise regulatory awareness. In particular, information on the fair value of cryptocurrency holdings is valuable to the general investors and other stakeholders but the lack of comparability and consistency in the fair value disclosure makes it difficult to extract and compare such information. This difficulty came up at the panel discussion at the CFA Society New York this month where I served as a panelist. You can find the recording of the discussion here.

We appreciate the opportunity to comment on the FASB's agenda and would gladly speak more to the FASB about our comments. Please feel free to contact Professor Vivian Fang (fangw@umn.edu) if you have any questions about our study or the panel discussion at the CFA Society New York.

Sincerely,

Vivian Fang

Cc:
Chelsea Anderson (canderson@walton.uark.edu)
Robbie Moon (robbie.moon@scheller.gatech.edu)
Jonathan Shipman (jshipman@walton.uark.edu)