FORTRESS
INVESTMENT GROUP LLC

1345 AVENUE OF THE AMERICAS
46TH FLOOR
NEW YORK, NY 10105
TEL 212 798-6100

September 21, 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: Comment on the 2021 Agenda Consultation Process: Accounting for crypto and digital assets and liabilities

Dear Ms. Salo:

Management of Fortress Investment Group LLC ("Fortress") appreciates the opportunity to provide an agenda request to the Financial Accounting Standards Board ("FASB" or the "Board").

Fortress requests that the FASB consider a topic to its Technical Agenda involving practice issues related to the investors or holders accounting for digital assets. The Board has previously decided against adding a project on digital currencies to the technical agenda. As further described below, Fortress believes the practice issue involving the accounting for digital assets has become pervasive across industries. This letter provides Fortress's formal agenda request and overall view on why this topic should be added to the agenda.

Introduction

Fortress is a leading, highly diversified global investment manager with over $53 billion of assets under management as of June 30, 2021. Among the investments made by our business a portion of those assets are invested directly in digital assets or in debt and other securities of companies who have significant holdings in digital assets. Prior to Fortress's acquisition by SoftBank Group Corp. in 2017, Fortress was an SEC registered public company. During the time Fortress was a publicly traded company, it was an investor in the emerging cryptocurrency markets purchasing bitcoin in 2013 and ultimately selling its holdings of bitcoin during 2018. Fortress's experience transacting in these t markets early in their lifecycle as well as our financial and accounting team's extensive professional expertise addressing accounting policy matters related to financial instruments enables us to be one of the few organizations to have had to address the accounting for digital assets from its infancy, as both a preparer and user of financial statements, for a significant period of time which gives us the experience to share our informed view.

During October 2020, the Board addressed the issue of accounting for digital assets, including "cryptocurrencies" after receiving multiple agenda requests. All the agenda requests made to date share a similar concern that digital assets are accounted for as indefinite-lived assets. Currently, digital assets generally do not meet the definitions of cash, inventory, or financial assets under existing guidance, and therefore, cryptocurrencies are accounted for as indefinite-lived intangible assets. The Board concluded at the time that the concerns raised in the previous agenda requests were not pervasive and therefore decided not to add a project to its agenda.

Notwithstanding this decision by the Board, Fortress believes the issue is pervasive, given the expansion and growth in the markets trading digital assets, liquidity of those markets, as well as the acceptance and application of digital assets being used as currency. Standard setting is necessary to provide an accounting model that can be consistently applied to more appropriately reflect the economics and intent for users and preparer of financials statements which include investing and transacting in digital assets.

Fortress Perspective

As noted above, digital assets generally, including the most common, Bitcoin and Ethereum, do not meet the definitions of cash, inventory, or financial asset, as there is no right to receive cash or another financial instrument from a second entity and meet the definition of an intangible asset and are accounted for using Topic 350, *Intangibles-Goodwill and Other* and AICPA Practice Aid, *Accounting for and Auditing Digital Assets*. Applying this current accounting literature, digital assets would be initially measured at cost, then tested for impairment. However, if the reporting entity is within the specialized guidance for investment companies or broker dealers, the assets would be accounted for at fair value.

Accounting for digital assets as an intangible under Topic 350 is an issue for many participants who treat digital assets as a means for collateral or investment and does not appropriately reflect the economics or the nature of how an entity is using digital assets in the financial statements.

Under the current model, preparers are required to write down the value of digital assets when facts and circumstances indicate an impairment is more likely than not and will not have the ability to recognize any gains until the assets are sold or transferred to another party. This is misleading and not a true representation of these assets to users of financial statements, as the balance sheet will not reflect the true liquid nature and value of these assets. For example, Fortress's initial investment in Bitcoin during 2013 may be the first of many similar situations to illustrate this point. Fortress's initial $20 million investment in Bitcoin was impaired to $5 million after holding the asset for two quarters. The impaired value subsequently increased 70 times and that change in value was not reflected in Fortress's financial statements until the asset was sold during 2018.

As a lender and bondholders, we rely heavily on the concept of asset value and book value and Generally Accepted Accounting Principles ("GAAP") should accurately reflect this. Unlike an equity investor, we are more focused on existing asset value, as such, it is paramount that the financial statements we are evaluating accurately reflect the underlying book value of the investee and the assets provided as collateral.

Fortress's lending activities are collateralized by a variety of assets, including but not limited to, working capital, digital assets (including "cryptocurrencies"), publicly traded securities, underlying cash flows and pledged equity. All these stated collateral types are revalued monthly in investees' financial statements or debt compliance documents, other than crypto and digital assets. The current accounting standard for crypto assets as an intangible asset is impractical and does not reflect the true underlying collateral for debt instruments.

As investors, Fortress utilizes third party research to inform our view when making an investment. We have found third party research reports to be inconsistent with their analysis of digital assets, some analyzing the digital assets as intangibles subject to impairment and others adjusting for changes in fair value. The inconsistency in the marketplace creates transparency and comparability challenges for investors and users of research and analyst reports to value assets and collateral across multiple investees. In some research reports significant increases in the value of digital assets are adjusted to reflect the current value of an entity's assets. Alternatively, there are reports which include digital asset impairments only and completely ignore the true fair value by an entity. The volatility associated with the changes in the value of these assets can be significant, and as such, potentially have a material impact on investment decisions. The lack of a fair value accounting model for digital assets lends to increased non-GAAP adjustments made by preparers as well as reduced transparency and comparability for users of financial statements when evaluating those and other financial information.

Conclusion

Based on the significant growth in the markets, liquidity and geographical dispersion of digital assets Fortress believes this is a pervasive topic that is worthy of consideration by the Board. The conversion to a fair value accounting model for these assets will better reflect the value of assets reported in financial statements, improve the comparability and transparency of the presentation and reporting of digital assets and ultimately permit preparers and users to better understand the business purposes and economics (trading, investment, inventory) of this asset class for each entity rather than forced presentation as intangibles which are currently being used for accounting for dissimilar assets (e.g. other intangible assets do not have liquid markets that are traded 24 hours, seven days a week).

Respectfully submitted,

Dan Bass
Chief Financial Officer
Fortress Investment Group LLC

John Konawalik
Chief Accounting Officer
Fortress Investment Group LLC