SKYBRIDGE

September 21, 2021

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

Via email: director@fasb.org

Re: Comment on the 2021 Agenda Consultation Process: Accounting for Crypto and Digital Assets and Liabilities

Dear Ms. Salo:

SkyBridge Capital II, LLC ("SkyBridge") appreciates the opportunity to provide an agenda request to the Financial Accounting Standards Board ("FASB" or the "Board").

SkyBridge requests that the FASB consider a topic to its Technical Agenda involving practice issues related to the investors or holders accounting for digital assets. Previously, the Board decided against adding a project on digital currencies to the technical agenda. As further described below, SkyBridge believes the practice issue involving the accounting for digital assets has become pervasive across industries. Further, SkyBridge believes that the present accounting framework unintentionally penalizes public companies that own digital assets by increasing their cost of capital. Moreover, the knock-on effect of this policy causes harm to retail and institutional investors, including public pension funds and the innumerable retired public employees represented thereby. This letter provides SkyBridge's formal agenda request and overall view on why this topic should be added to the agenda.

Introduction

SkyBridge is a global multi-asset class alternative investments firm, specializing in hedge fund solutions and opportunistic investment vehicles. SkyBridge manages commingled fund of funds, separately managed accounts, digital assets offerings, an Opportunity Zone REIT and a series of SPVs investing in late-stage private technology companies.

The SkyBridge investment team pioneered a high-conviction approach to alpha generation, expressed through a thematic and opportunistic investment style for fund of funds. The firm maintains a rigorous and disciplined process for manager selection, portfolio construction and portfolio turnover. In late 2020, SkyBridge's registered and private funds commenced direct and indirect investments in digital assets and cryptocurrency.

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SkyBridge also produces a large annual thought-leadership event in the U.S. known as the SkyBridge Alternatives ("SALT") Conference.

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; 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 accordingly decided not to add a project to its agenda.

Notwithstanding this decision by the Board, SkyBridge 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.

SkyBridge Perspective

As noted above, digital assets generally, including 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 asset under Topic 350 is an issue for many participants who treat digital assets as a means for collateral or investment and do 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, initial investment in Bitcoin in the early years of adoption illustrates this point. An initial investment in Bitcoin in 2013 was impaired by 75% after holding the asset for six months. However, the impaired value subsequently increased 70 times and that change in value would not be reflected in the holder's financial statements until the asset is sold. Suffice to say, this accounting treatment is unwise and indefensible.

As an investment adviser, SkyBridge relies heavily on the concept of asset value and book value and Generally Accepted Accounting Principles ("GAAP") should accurately reflect this. When making investment decisions, SkyBridge focuses 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. As a point of reference, SkyBridge manages portfolios of public equities which include MicroStrategy, Coinbase, Square, and Marathon Digital Holdings, among others, that hold digital assets on their balance sheets. Our analysis concludes that treating bitcoin as an intangible asset inaccurately represents the balance sheet strength of these companies.

Generally, 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, SkyBridge utilizes third party research when making investment decisions. 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 SkyBridge 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 a day, seven days a week).

Respectfully submitted,

Brett Messing
President and Co-Chief Investment Officer
SkyBridge Capital II, LLC