

Global Digital Asset & Cryptocurrency Association

Advancing the Industry - Protecting Consumers - Promoting the Public Interest

global-dca.org

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Mr. Richard Jones, Chair
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5516
Norwalk, CT 06856-5116

Submitted electronically to FASB via email correspondence to: director@fasb.org

Subject Line: Global Digital Asset & Cryptocurrency Association Response to the Financial Accounting Standards Board Invitation to Comment on the Agenda Consultation – File Reference No. 2021-004

Dear Mr. Jones:

The Global Digital Asset & Cryptocurrency Association (“GDCA”) greatly appreciates the opportunity to provide a response to FASB’s invitation to comment on the future standard setting agenda.

Introduction to Global Digital Asset & Cryptocurrency Association

GDCA is a global self-regulatory association for the digital asset and cryptocurrency industry. It was established to guide the evolution of digital assets, cryptocurrencies, and the underlying blockchain technology within a regulatory framework designed to build public trust, foster market integrity and maximize economic opportunity for all participants. Our broad-based membership includes exchanges and trading venues, proprietary trading firms, traders, investors, asset managers, brokerage firms, custodians, decentralized technology organizations, banks, legal firms, audit firms, insurance companies, academics, consultants, and media. GDCA is now made up of over 30 such entities¹ globally, many of which are US based and report their financial statements under US GAAP. To fulfill its mission, the GDCA devises standards and consensus-based solutions designed to address the major challenges facing the digital asset and cryptocurrency industry. We collaborate with stakeholders globally, industry leaders and policymakers to support the growth of the global digital economy by:

- Advocating for a regulatory environment that facilitates innovation and protects consumers, stakeholders, and the broader public interest world-wide;
- Providing education, training, certification, and other resources to build human and technical capacity; and

¹ To view a listing of GDCA Members, please click here: <https://global-dca.org/membership/>.

- Providing thought leadership and facilitate industry engagement.

GDCA employs a self-regulatory mechanism that is guided by principles of accountability, integrity, and transparency to promote the highest professional and ethical standards for its members by developing a Code of Conduct and best practices, and holding members accountable via enforcement mechanisms such as surveillance and a legally binding dispute resolution forum. <https://global-dca.org>.

The GDCA and its members supports FASB's mission of improving financial accounting and reporting standards, specifically with regards to the digital assets industry. With this mission in mind, the GDCA strongly urges FASB to add the accounting standards for digital assets and liabilities by holders and issuers to its agenda to improve the transparency, comparability and quality of financial information intended to effectively and accurately represent the financial position and the results of operations of entities reporting under the US GAAP Standards while participating in the digital assets industry and/or holding this asset class.

Case for Addressing Digital Assets under US GAAP

Even though, certain jurisdictions and standard setting bodies are still challenged with determining the best approach toward the regulatory, compliance, legal, tax and accounting treatment for digital assets, and perhaps questions around whether this technology will become mainstream still exist, it is clearly visible that today's consumer and institutional investor is choosing the technology and adopting digital assets as means for store of wealth, investment or payment remittance. The technology has been in existence for about ten years, but especially visible in 2020 and 2021, institutional adoption has been accelerating at a pace that can't be matched with any human invention currently in place. The use cases for the decentralized network have been rapidly expanding as more institutions are adopting this relatively new technology and related digital assets. From 2018 to 2021, the capitalization of Bitcoin grew from \$276 billion and reached \$1.1 trillion in 2021, which represents about 10 percent of market capitalization of gold. Similarly, the size of Ethereum, the largest platform for decentralized finance, reached its peak at the capitalization of over \$460 billion in Q3 of 2021. Ethereum has been experiencing similar exponential growth, recently exceeding the growth of Bitcoin. The pace of growth for both these leading networks is much faster than a growth of any company, network or a brand globally. As this trend is expected to continue, and continues to accelerate, an expectation that the use of the technology and digital assets does not become mainstream and that it doesn't significantly alter the current financial system would not be realistic.

Today, many US GAAP reporting public and private entities are already involved in digital assets and cryptocurrencies and an aggressive adoption is under way. Digital assets are held not only by rapidly growing entities offering services and products utilizing the blockchain technology, but also entities from other industries that purchase digital assets as an investment vehicle and include them in their treasury portfolios as a store of wealth, a medium of exchange, or a digital form of physical assets. It is clearly visible that enterprises across industries, which have been observing and learning about the benefits and risks of digital assets and the distributed ledger technology are moving from the education phase toward active implementation. Today, companies worldwide

hold nearly 8 percent or 1.6 million out of the total 21 million of total Bitcoin supply², which approximates \$75 billion of assets (based on valuation as of the date of this response). The largest holders of Bitcoin are notably US publicly traded companies across multiple industries such as MicroStrategy (MSTR), Tesla, Inc. (TSLA), Square Inc. (SQ), Marathon Digital Holdings (MARA), Coinbase Global Inc. (COIN), Riot Blockchain, Inc. (RIOT), Coin Citadel Inc. (CCTL), Bit Digital, Inc. (BTBT), CleanSpark Inc. (CLSK) and BTCS Inc. (BTCS). Even though the amount collectively held in digital assets is currently not significant compared to total assets of the largest US public entities like Berkshire Hathaway (assets \$874 billion)³ or Apple (assets \$354 billion)⁴, the adoption of digital assets across enterprises and industries is rapidly accelerating and, with the current pace, it is expected to represent a significant portion of assets on balance sheets of reporting entities globally and within the US in the very near future.

The presence of digital assets within US public entities and US capital markets is also escalating as multiple young and aggressively growing digital asset companies are in preparation of their IPO following the first significant industry direct listing by a digital asset trading venue, Coinbase. The public offering of Coinbase in April 2021 created a path for other industry stakeholders, auditors and regulators to follow especially with regards to accounting treatment and disclosure. Multiple companies providing services in digital assets are currently IPO candidates. As an example, included here are just a few that publicly announced their public listing intention to occur within the next year: Kraken, San-Francisco based digital asset exchange with expected valuation of \$20 billion; Blockchain.com, a London based exchange and custodian with expected valuation of \$5 billion; Bakkt, a rewards focused platform with expected valuation of \$2 billion; BlockFi, and a New Jersey-based lending firm currently valued of \$3 billion. Multiple additional entities in the industry have not publicly disclosed intentions to be publicly listed; however, they are rapidly expanding their leadership and strengthening controls across the enterprise in preparation for the initial public offering.

Separately, as the regulatory framework for digital assets is being developed and clarified, mature financial services companies are also preparing to provide services in digital assets to their clients. Just within the last year major banks and investment brokers such as JP Morgan, Goldman Sachs, Citibank, Bank of New York Mellon, Deutsche Bank, Morgan Stanley and Charles Schwab, among others, announced that they are working on implementing the custody of digital assets and will offer digital asset services to their clients as a distinct asset class within the next year.

² <https://www.nasdaq.com/articles/companies-now-hold-over-1.6-million-bitcoin-almost-8-of-total-supply-2021-08-25>

³ <https://www.forbes.com/lists/global2000/#7a90b5a95ac0>

⁴ <https://www.forbes.com/lists/global2000/#7a90b5a95ac0>

Additionally, major retailers and payment providers such PayPal⁵, Amazon⁶, Facebook⁷ and Walmart⁸ have launched or are working on developing payment services in digital assets in search for a cheaper, faster, always available, and globally interconnected transmission of funds in the era where digital transactions dominate the payment system.

Since October 2020, when FASB last considered agenda requests on accounting standards for digital assets, the evidence of pervasiveness for digital assets especially within the financial sector, as an investment asset and a mean for payment transmission, became much more evident and has overwhelmingly expanded. As growing demand and mass adoption fuels the amount of capital invested, incentives further innovation and offers more regulatory clarity, cryptocurrency transactions and balances should be expected in common on financial statements of many public and private reporting entities across industries and jurisdictions and digital assets should be expected to attain its own asset class status.

Challenges with the existing accounting standards under US GAAP

Under the conceptual framework for financial reporting, the fundamental quantitative characteristics that make accounting information useful are *relevance* and *faithful representation*. Accounting information is relevant if it can make a difference in a decision. Faithful representation exists when there is an agreement between accounting information and the economic events that the accounting information purports to represent. It is difficult to conclude that the current accounting standards for digital assets fundamentally meet the objective of *relevance* and *faithful representation* for this asset class.

1. Attributes of digital assets diverge from the concept of an intangible asset under the current standards and are much more aligned with nonfinancial assets held for investment purposes or financial instruments. Unlike most commonly known intangible assets (e.g. software, intellectual property, brands), digital assets have financial instrument properties. Most are traded in liquid and observable markets, or they may be subject to privately negotiated purchases and sales transactions. A significant portion of digital assets would not have a claim on the issuer, therefore would not meet requirements for a financial asset, and yet, they are held generally for investment purposes, are used to pay for services and experience price volatility, which are the main attributes of a financial asset rather an intangible asset under the accounting standards.

⁵ <https://www.paypal.com/us/smarthelp/article/cryptocurrency-on-paypal-faq-faq4398>

⁶ <https://www.bloomberg.com/news/articles/2021-07-26/amazon-job-posting-hints-at-plan-to-accept-cryptocurrency>

⁷ <https://www.lendacademy.com/facebook-announces-new-cryptocurrency-payment-product/>

⁸ <https://www.cfo.com/cryptocurrency/2021/08/walmart-is-hiring-a-digital-currency-and-cryptocurrency-product-lead/>

2. The fact that public and liquid markets exist for a vast majority of digital assets with observable inputs seems to be overlooked within the accounting standard framework for these assets. Multiple exchanges and trading venues offer readily observable quotations and significant liquidity in digital assets where market data is available as pricing inputs to determine the fair value. The liquidity is available at all times whereby digital assets can be purchased using fiat currencies or other digital assets such as stable coins. These markets are rapidly expanding as exchanges aggressively add new tokens to their offering and more institutions and individuals participate. Although exchanges are generally not regulated as national securities or derivatives exchanges, they are increasingly registering with the appropriate state and federal regulators and are subject to their compliance oversight. Enterprises generally utilize such exchanges and trading venues to purchase and sell various tokens.
3. The impairment valuation methodology under ASC 350 is limiting since once the assets are initially recorded at cost, their value can only be written down when impairment exists. The accounting treatment doesn't allow for recording of the appreciation when the asset experiences a recovery in value, which can be observed in a liquid public market for majority of digital assets, until the asset is sold. Under this methodology, the carrying value of digital assets held does not provide a true representation of their fair value and results in timing differences as the impairment expense is recorded throughout the holding period vs. the realized gain(loss) at the time the asset is sold. Moreover, the carrying value of the same exact asset at the same reporting date may be vastly different based on the holding period of such asset as the asset is tested for impairment during varying periods of time. This disparity in valuation impacts the carrying amounts of assets presented by a single reporting entity, and it prevents comparability of financial information across multiple entities holding same exact assets.
4. Under ASC 350, it is very challenging for investors, creditors and otherwise readers of the financial statements of entities holding digital assets and liabilities to obtain a clear picture of the true financial position of the reporting entity and disclosures related to impairment and realized gains/losses become very confusing. As a result, most readers of the financial information request and rely on non-GAAP measurements and disclosures in the attempt to understand the true financial position of the entity and the exposure to this asset class. Additionally, the disparity in the presentation and valuation of digital assets under ASC 350 lessens the comparability of the financial position among reporting entities impacting transparency, valuations, share prices and credit worthiness.
5. The original cost and impairment valuation methodology applied for intangible assets also has limiting applications for liabilities in digital assets, such as digital assets sold short, not yet purchased. Intangible assets can't be impaired beyond their carrying amount and they can't be sold short. In the case of digital assets, a company can sell a digital asset that it doesn't own. When such digital asset increases in value, the obligation to repurchase this asset also increases. It is challenging to apply the impairment concept to such transactions.

Digital assets attributes are much more closely aligned with ones for financial instruments rather than intangibles.

6. Under current accounting standards, there is a mismatch of measurement basis between assets and liabilities for entities that hold digital assets on behalf of others and when digital assets are borrowed. For these entities that serve as a financial intermediary and for borrowing transactions, assets are recorded at cost adjusted for impairment while corresponding liabilities are recorded at fair value being recognized as a bifurcated derivative. This mismatch causes distortion between assets and related liabilities and does not properly represent the economic exposure, while the recorded income is not representative of the economic results.
7. The gross up presentation of revenue from principal transactions in digital assets under ASC 606 (proceeds from sales vs. cost of goods sold) potentially triggers reporting and audit requirements under the Sarbanes Oxley Act as well as the large company accelerated reporting requirements, otherwise not applicable and not appropriate for certain entities.

Proposed Solutions

The fair value valuation methodology for digital assets should be utilized as it is much more reflective of the true economical value and provides a faithful representation for these assets and liabilities. This, in turn, translates to a more accurate reflection of the entity's financial position and results of operations regardless of their course of business or registration status (e.i. fair value accounting can be applied for investment companies under ASC 946 or SEC registered broker-dealers under ASC 940). Fair value accounting through profit and loss supports the accounting conceptual framework because digital assets are sensitive to market risk and experience market volatility. Fair value accounting is also more relevant, provides more useful information for readers and enhances comparability across entities and industries. In addition, the fair value hierarchy within the current accounting standards provides the user of financial statements with sufficient information to assess the reliability of inputs used to determine the fair value of digital assets reported in the financial statements.

Even though digital assets, defined as digital representation of value or contractual rights created, transferred and stored on a distributed ledger technology network (referred to as a blockchain) and authenticated through cryptography, meet the definition of an intangible asset under ASC 350, they should rather be approached from the perspective of a digital representation of traditional assets and liabilities established under current accounting standards. Using this approach, digital assets could be classified with regards to the type of an asset or a liability (cash equivalent, security, commodity, receivable, financial instrument, etc.) using their distinct rights and obligations as well as the intent of the holder as the primary consideration and lessening the focus on the fact that these assets are intangible in nature. With this framework, various types of digital assets would be expected to naturally fall within the most appropriate accounting standard and treatment.

With regards to specific recommendations, the GDCA strongly suggests that the following technical standard revisions are considered by FASB:

1. Apply fair value valuation methodology for intangible assets that are digital assets with publicly observable markets as the valuation methodology aligning with ASC 820 guidelines with regards to the fair value hierarchy and the classification of the asset into an appropriate level (e.g., level 1, level2, level 3). Continue to apply the cost measurement methodology for certain assets that that are not traded in publicly observable markets or are held as a utility or an inventory necessary to perform a function or a service and are not held as an investment asset with the intent to sell.
2. Apply ASC 321 fair value guidelines to measure digital assets with a readily determinable fair value at fair value, with changes in fair value included in net income each reporting period. For digital assets without a readily determinable fair value, elect to measure those investments at their cost minus impairment (if any).
3. Expand the definition of inventory to include intangible assets. Also, improve the comparability with IAS 2, whereby a commodity broker-trader may measure inventory at fair value less costs to sell.
4. Align activities in digital assets on the statement of cash flow according to the intent and purpose for holding the asset.
5. Expand the scope of ASC 940 to be applied by financial intermediaries in digital assets utilizing the definition of a broker as an entity “responsible for regularly providing any service effectuating transfers of digital assets on behalf of another person.”
6. Expand disclosure requirements with regards to digital assets to include:
 - a. Quantities and fair value by token for digital assets held as of the reporting date,
 - b. Indication of market liquidity for digital assets held,
 - c. Intent and purpose of holding digital assets,
 - d. Fair value disclosures required under ASC 820.

Expanding the consideration of an active market to include market prices denominated not only in fiat currency, but also in certain⁹ stable coins would significantly expand the ecosystem of sufficient liquidity for the purpose of determining whether a principal market exists. The fiat market represents only a minority of the liquidity across all digital assets; however, all digital assets are available in stable coin pairs. Currently, even though a well-established, liquid

⁹ Certain stable coins issuers are regulated entities. Examples include BUSD and PAX, issued and managed by Paxos Trust Company, LLC, an entity that is legally organized as a New York State Trust and regulated by the NYDFS. Also, similarly regulated are TUSD and GUSD stable coins. Under the user terms, the holder of these coins has a contractual and enforceable right to redeem stable coins for fiat currency on demand at par. Also, BUSD holders are eligible for deposit insurance.

market exists for certain major coins that are denominated in fiat currencies such as USD, EUR or JPY, a much deeper liquidity exists for digital assets quoted in terms of stable coins. This would especially be helpful in multiple coins which are thinly traded or not traded at all against a fiat currency, but experience significant volume and offer expansive liquidity trading in stable coins such as USDT, BUSD or USDC. Much more active markets trading in stable coins exist for all coins generally, but for certain coins such as Luna (LUNA) with a market rank of 10 trading over \$800 million a day in notional amount with market capitalization of over \$12 billion¹⁰ or Tron (TRX) having a market rank of 26 and trading over \$1.5 billion a day in notional amount with market capitalization of over \$7 billion¹¹, this modification would be deterministic as to whether a principal market exists or doesn't exist for accounting and valuation purposes.

To the extent a particular stable coin provides the holder with a contractual and enforceable right to receive fiat currency on demand redeemable at par, market pricing denominated in such stable coin pairs should be considered as part of the principal market under the accounting standards. Limiting the determination of a principal market to only fiat pairs pushes the valuation of many digital assets toward cost with impairment or an alternative valuation technique. Also, treating stable coins similarly to fiat currency improves consistency for the valuation of majority of digital assets and liabilities across entities and improves the comparability of the financial statements by leaving the alternative valuation model to a much smaller population of coins.

We would suggest that the cash and cash equivalent definition is updated under the US GAAP. The cash or cash equivalents definition in ASC 305 may need to be updated to include certain digital assets, such as stable coins that meet certain criteria. The criteria may include stable coins backed by fiat currency on a 1:1 basis, CBDCs, or digital assets defined as legal tender according to jurisdictional definitions. As certain jurisdictions move toward qualifying certain digital assets as legal tender under regulatory definitions, stable coin issuers become regulated and many central banks globally are considering the issuance of CBDCs, it is certainly appropriate to broaden the definition of cash and cash equivalents under US GAAP for these assets.

We expect the certain stable coins to move toward transparency as to investments and investment restrictions on deposited assets and offer insurance on deposits under developing regulations. Currently, privately issued stable coins, such as USDC, TUSD, USDT, BUSD, PAX or HUSD, generally include default risk and liquidity risk of the issuers, even though they are pegged to fiat currency and can be redeemed in fiat at par. As of now, only BUSD offers investment restrictions and insurance on deposits for coin holders. Despite these risks, the popularity of these coins has grown rapidly in the recent years as the issuing entities put a lot of emphasis on transparency and enhanced customer protection by engaging independent certified auditors to perform an audit of reserves. Top stable coins issuers report performing monthly attestations by independent auditing firms validating reserves, with notably TUSD reporting validated reserves real time. Utilizing available technology, the audit of reserves is performed periodically or real time and such audited reserves are published. While this procedure does provide customer protection against the failure of the issuer, it provides more transparency than in any traditional payment system by the means of disclosing an independently verified record of assets backing the stable coin.

¹⁰ CoinMarketCap LUNA price statistic as of September 6, 2021 <https://coinmarketcap.com/currencies/terra-luna/historical-data/>

¹¹ CoinMarketCap TRX price statistic as of 5 July, 2021 <https://coinmarketcap.com/currencies/tron/>

Moreover, as stable coins offer fast and always available transmission of funds, certain entities transitioned to regularly utilizing them in lieu of fiat as part of operations. With this transition, the presentation of the cash flow statement would be more meaningful if these balances and transaction flow would be treated similarly to cash and cash equivalents.

The accounting treatment for utility and hybrid tokens may need clarification. Utility tokens can have a variety of associated rights including access to network services, blockchain creation rights, governance and network contribution rights. Some of these functional or consumption rights are atypical tradeable rights (e.g. rights to update network functionality; or rights to contribute labor, effort, or resource to the system) embedded within or related to complex structures such as digital autonomous organizations. We would be in support for applying the predominant component as well as the primary purpose of the token holder and the business use to determine the classification and measurement of hybrid and utility tokens. Consideration of the holder's intent and business purpose would be especially important for hybrid tokens or tokens that over time enhance its functionality, which changes its attributes and the main business purpose.

The applicability of accounting standards is premised on the existence of enforceable implicit or explicit contract with a customer that specifies the nature, amount, timing and cash flows under the transaction. In cases where issuers create tokens intended to offer a service or a product (utility and hybrid tokens), but there is a lack of enforceability or legal evidence of the issuer's performance obligation related to such tokens issued, the applicability of the accounting treatment may have to be evaluated case by case and available evidence, including the practical application, and other records and documentation should be further considered.

In a practical application, three key records typically accompanying an issuance of a new token are: (1) the software code, (2) the white paper, and (3) the independent technical audit report with regards to the functionality of the code. These three items would be expected to provide comprehensive information on the functionality of the token, conditions required for specified performance, and the expected outcome. In addition to the review of a contract, if one exists, it is essential that accounting professionals review these three key records to gain the necessary understanding and draw conclusions with regards to rights and obligations of the issuer and the functionality of the token in question. In certain cases, technical expertise may be required while reviewing this documentation to properly interpret the software code as well as mathematical formulas and assumptions embedded in the white paper. It is also very important to emphasize that white papers or interpretations of software code don't rise to the standard of a legal contract and their legal enforceability should be carefully considered.

In addition, the GDCA would suggest that following key considerations should be evaluated to establish the performance obligation by the issuer and to further assist in recognizing a liability or revenue, as applicable:

- Was the token designed and created by the issuer to provide certain service (contribute to network capabilities) or product (digital points or miles, Binance Coin, tokenized gold coin or a tokenized share in a company) between two parties in an arms-length transaction?

- In a case of a hybrid token, what is the main intended functionality?
- Was the token designed by the issuer to provide cash flows between two parties in an arms-length transaction under specific conditions?
- Is the functionality of the smart contract legally enforceable?
- Were the tokens issued as a pre-functional tokens before the launch of the network with an accompanied Simple Agreement for Future Tokens (SAFTs) and will the tokens convert to utility or other type tokens once the network is launched?
- Does other type of evidence, such as a contract between an issuer and the third party, communications, representations, filings or internal memos, provide basis for documentation of rights and obligations by the issuer?
- Is there public information describing the token’s intended performance or purpose as well as rights and obligations of the issuer and the subscriber.

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The GDCA appreciates the opportunity to provide comments to FASB on the agenda consultation with regards to the accounting treatment for digital assets. We look forward to continued collaboration and offer support in the effort to further develop standards for the digital assets industry and within the accounting profession.

Respectfully submitted,

By: The Global Digital Asset and Cryptocurrency Association (“GDCA”)
Renata K. Szkoda, CPA
Public Policy and Regulation Committee

In addition, the following entities are also in support of the GDCA’s Response:

Mr. David Deputy
President
The Accounting Blockchain Coalition

Mr. Peter L. Briger, Jr.
Principal and Co-Chief Executive Officer
Fortress Investment Group

Ms. Suzanne Morsfield
Global Head of Accounting Solutions
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Mr. Joel Quall
Chief Financial Officer
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