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Via electronic submission to: director@fasb.org

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

RE: Agenda Request – File Reference No. 2021-004

Dear Mr. Jones and Ms. Salo:

We thank you for the opportunity to respond to the invitation to comment (ITC) on the future FASB agenda. We are writing to recommend that the Board add projects to its near-term agenda that would improve the accounting for crypto assets. We can all agree that this is a relatively new industry and also that high-quality accounting standard-setting takes substantial time and resources to ensure appropriate public deliberation and consultation. We also would point out that the momentum and growth in the economic activities involving crypto assets is significant, and simultaneously points to a need for timely action on the part of the Board.

About Lukka

Founded in 2014, Lukka serves the largest crypto asset institutions with middle and back office data & software solutions. Lukka solves the very unique complexities of crypto (and blockchain) data for businesses so that they can adopt digital assets into their businesses. Its customers include Crypto Asset Exchanges and Trading Desks, CPA & Accounting Firms, Funds, Fund Administrators, Fund Auditors, and Financial Auditors, Miners, Protocols, individuals and any business that interacts with crypto transactions. All of Lukka's products are created with institutional standards, such as AICPA Service and Organization Controls (SOC), which focus on data quality, financial calculation accuracy & completeness, and managing technology risk. Lukka is a global company, currently headquartered in New York City. For information about Lukka, visit https://lukka.tech/.

Our conclusions

We provide a more detailed explanation of some of our conclusions in the rest of this letter, but we wish to enumerate the main conclusions at the outset. We also note at this point that we refer to “crypto assets”, rather than “cryptocurrencies”, because the former captures the broadest array of assets that would benefit from the Board’s consideration. With respect to the accounting and reporting for crypto assets, we believe:

1. The area meets the criteria prescribed by the FASB for addition to its agenda

    - Traditional measures of pervasiveness are likely to “under-measure” this important concept, and so we propose some alternative measures and methods.

2. The following key concepts are important to the discussion about next steps—representational faithfulness, decision usefulness, relevance, reliability, comparability, and consistency.

3. Most crypto assets are not a new asset class:

    - However, the existing indefinite-lived intangible asset classification is not representationally faithful or decision useful in the vast majority of instances; it also does not provide relevant, reliable, comparable or consistent information for the reporting of most crypto assets.
    - Crypto assets are best analyzed and accounted for by their actual economic uses, most of which have analogues in traditional assets and transactions.

4. The following crypto accounting issues should be addressed by the Board, but not necessarily only via a single, large crypto accounting project:

    - Asset classification and subsequent measurement
        - Evaluate the economic uses of crypto assets (allowing for asset classification other than as indefinite-lived intangible assets in most cases):
            - Identify the analogues to traditional assets and transactions.
            - Map to the resulting relevant, current US GAAP and close any weaknesses or gaps in US GAAP, instead of creating new US GAAP.
            - Start with a blank sheet of paper that creates new US GAAP only for those transactions and assets that cannot be closely correlated to those already in existence.
        - Assess weaknesses or inconsistencies in the current impairment model across US GAAP, with particular attention to the decision usefulness of the model for long-lived or intangible assets that are subject to temporary market fluctuations.

    - Analyze and address the substantive reporting issues that arise when crypto assets are used in transactions while classified as indefinite-lived intangible assets (for as long as this accounting treatment is required for most holdings).

- Fair value model application
    - Define the fair value model in ASC 820 as appropriate for most holdings of crypto assets by entities other than those subject to Topic 940 or Topic 946; this can follow from the economic uses and analogues analysis.
    - Maintain the ASC 820 levelling treatment for all crypto assets that are subject to fair value treatment.

- Reporting and disclosure
    - Examine the trends in and causes of material non-GAAP reporting for entities holding crypto assets by type of holding and entity.
    - Require disclosures in the notes that, at a minimum, explain to financial statement users the economic use(s) of the crypto assets held, and the amounts by category of economic use.
    - Consider adding common practice elements to the XBRL taxonomy to allow for ease of discovery and measurement of crypto assets, especially while they are being classified as indefinite-lived intangible assets.

5. High quality reporting standards take time; however, we also believe that some of the current issues are so critical, time sensitive, and trending in materiality and pervasiveness that they should be prioritized for near-term projects:

    - The list of issues above would take a substantial amount of time if the only approach available was to include them in one large crypto accounting project, and/or to scope them into other, relatively large projects, such as a project that reconsiders the accounting for intangible assets again.
    - Given this, we also believe the most helpful approach to updating standards for crypto transactions would be a hybrid approach that:
        - Separately scopes smaller, targeted projects that can address current, critical, time-sensitive weaknesses or gaps in current US GAAP.
        - Separately identifies those areas that can best be addressed only in larger projects.

6. The establishment of a FASB-created working group comprising crypto industry experts would be beneficial to FASB staff and Board members, regardless of the outcome of the agenda consultation:

    - This group could convene regularly and begin to meet now to provide timely and critical industry-specific knowledge about all aspects of how crypto transactions work in practice, along with the related financial reporting ramifications:

- We believe this group could shed light on the notion of identifying a principal market.
- We also expect this group could assist with providing insight about the various crypto transactions and whether there are reasonable analogues to traditional transactions.

- If an official FASB working group is not possible in the near-term, we would strongly suggest regular FASB staff and Board member participation in an industry-created working group that focuses on education and discussions regarding current and emerging areas relevant to crypto asset accounting and reporting.

Does the area meet the criteria for addition to the agenda?

The ITC asked respondents to consider whether a particular area under consideration meets the Board's three criteria for being added to its agenda. We believe that crypto accounting is an issue that does, in fact, meet all the following criteria:

- Identifiable and sufficiently pervasive need to improve US GAAP.
- Technically feasible solutions, and the perceived benefits of those solutions are expected to exceed the costs.
- Identifiable scope.

Identifiable and sufficiently pervasive need to improve US GAAP

An absence of pervasiveness is noted as a main reason for not including a crypto accounting (or nonfinancial assets) project on the FASB's agenda to date.[1] Some of the key methods for measuring pervasiveness available to FASB staff at the time included keyword searches of 10-Ks and 10-Qs, and similar searches of SEC XBRL filings for the same financial statements. These searches resulted in counts of the number of publicly-traded companies who had disclosed crypto holdings or activities. We also note that FASB staff undertook laudable outreach to investors and preparers to further document both pervasiveness and investor interest in such reporting.

We acknowledge the tremendous effort that the staff exerted to provide a measurable indication of whether a project (large or small) for crypto assets was worth the use of the scarce resources of the Board and staff. We also want to suggest alternative

[1] For example, see April 8, 2021 FASAC meeting recap, and March 18, 2021 CFO.com interview with FASB Chair, Richard Jones.

measurement methods and indicators of pervasiveness that may provide additional insight.

Some alternative measures and methods may be helpful

The traditional approaches to measuring pervasiveness can accidentally miss signals that an area should be included in the agenda sooner rather than later. Traditional measures are often limited by the availability of data/information, especially related to those entities that are not publicly traded. These measures also may miss trends that signal that an area is growing so rapidly that the current accounting and reporting standards may become seriously deficient rather quickly insofar as the timeliness and quality of information that they are meant to convey.

The traditional measures also do not necessarily capture the actual “gaps in GAAP”, nor would they be able to quantify the ramifications of those gaps for current and near-term future users of financial statements. Even if only encountered by several dozen public companies at the time of the staff’s research, the materiality and significance of the gaps may, in fact, be so important that they should be addressed currently anyway.

Suggestions for supplemental pervasiveness indicators

Our views on measuring pervasiveness include supplementing the counting of the number of public companies with crypto holdings or activities. We are relying on public descriptions of the FASB’s endeavors to measure pervasiveness, but we also wish to acknowledge that some of these approaches may already have been considered or conducted by the staff. With that in mind, our suggestions include:

- Other measures or indicators

  Additional measures to indicate the size of the market in transaction volume, transaction type, and transaction amounts (on both an aggregated and categorized level).

- Timing, magnitude, and direction of future trends

  Trends in the amounts and types of holdings and transactions gives the Board and staff an opportunity to begin the process of standard-setting (or clarifications of existing standards) prior to the development of potentially serious informational gaps caused by the current standards:
    - This includes monitoring areas of new and/or growing use of non-GAAP reporting as an early-warning indicator of future reporting

    issues that should perhaps begin to be addressed currently, even if traditional measures of pervasiveness are not indicative.
    - This includes interviewing accounting solutions providers who are actively working with clients on the frontline of transactions processing and reporting; these providers may be able to provide information on important trends, and specific accounting issues that are on the rise or that are potentially problematic.

- Entities other than SEC-reporting entities

  Applying all current counts and alternative measures to entities such as private companies, not-for-profit entities, and any other organizations subject to US GAAP.

- Pre-IPO companies

  Identifying those companies for which the current crypto accounting and disclosure requirements may be proving to be an extraordinary hurdle to raising capital in the public equity markets.

- Continual and extensive outreach to the crypto industry itself, focused on their available measures of pervasiveness

  Speaking with the crypto community in general is important and encouraged. We further recommend specifically interviewing on a regular basis those who either directly aid entities in financial statement preparation or directly enable the use of information by financial statement users:
    - Such service providers are keenly and deeply aware of the size of the market, the reporting needs of preparers and users of financial statements, and of the related issues created by current US GAAP.
    - The inclusion of the accounting and reporting solutions providers in a formal, consistent part of outreach could be analogous to including XBRL service providers when discussing the changes to the digital reporting taxonomy, as is currently formally done via the FASB's Taxonomy Advisory Group.

We note that the crypto industry is often best positioned to provide some of the suggested supplemental information and refer the Board to the excellent data provided in other comment letters from the crypto industry.

Technically feasible solutions, and the perceived benefits of those solutions are expected to exceed the costs

Please see below for our thoughts on technically feasible solutions for which the benefits will outweigh the costs.

Identifiable scope

We recognize that the process of high-quality standard-setting takes time, and that large-scale projects will take years to complete. We also note that the crypto assets and transactions markets are growing at an exponential rate, globally. Given both of those observations, we propose the following approaches:

- A mixture of smaller, targeted projects and medium-to-larger projects
- Smaller, targeted projects should address significant gaps in the current standards that are creating current and material difficulties in conveying decision useful information; in particular, we urge these projects to address problems found when the underlying economic and accounting meaning of transactions is substantially obscured by indefinite-lived intangible asset treatment
- Medium-to-larger projects could address substantive issues about crypto transactions for which no ready analogue to traditional assets or transitions appears available.

We discuss the issues that we believe should be addressed by future projects in more detail in a section below. However, we believe that the criteria for inclusion on the Board's agenda are satisfied for crypto asset accounting and reporting projects.

Are crypto assets a new asset class?

As noted widely, there is no single type of crypto asset because they are used for a variety of economic purposes, and thus crypto assets do not (and should not) fit neatly into a single asset classification. However, at this point, most current crypto assets are analogous to traditional assets and transactions; they are simply wrapped in a new technology and/or delivery and execution mechanism (often without traditional financial and other intermediaries involved).

We recognize that the Board may have concerns that future economics uses will develop for which any current standard-setting will become outdated. As a result, we suggest an approach to initial standard-setting projects that is similar to that found in the Basel Committee's "Consultative Document: Prudential treatment of cryptoasset exposures (June 2021)". Their proposals around prudential treatment of crypto assets has been guided by at least two principles that may be helpful to the Board - "same risk, same activity, same treatment" and "technology neutrality".

To quote directly from the Consultative Document (p.2), “a cryptoasset that provides equivalent economic functions and poses the same risks compared with a ‘traditional asset’ should be subject to the same capital, liquidity and other requirements as the traditional asset.” So, when applying these or similar principles to US GAAP standard-setting, the initial and important task involves identifying the traditional transactions that are occurring in the crypto ecosystem—albeit with the new technology/execution—and then deciding what that means for the rest of the accounting and reporting for each of them.

In summary, we believe that, in general, crypto assets are not a new asset class. Instead, standard-setters and their constituents can begin their consideration of crypto asset accounting and reporting issues by asking the following questions:

- After examining the economic uses of crypto assets, what areas of existing US GAAP can be directly applied in a manner that provides representationally faithful, decision useful, relevant, reliable, comparable and consistent information?
- What gaps or weaknesses exist in current US GAAP that reveal themselves as a result of the new technology/execution?

Any gaps or weaknesses can be addressed by standard-setters without necessarily having to start from scratch in the first instance, or each time a new economic use for a crypto asset occurs, unless no satisfactory analogue is available. This leads to the next section, which identifies some of the gaps or weaknesses in current US GAAP, along with some possible proposals for improvement.

What issues should be addressed by the Board?

Asset classification

The current classification of crypto asset holdings (not subject to broker-dealer or investment company accounting) appears to have settled on indefinite-lived intangible assets (ILIA) in most cases. We are concerned that this classification has been arrived at mainly through an unofficial consensus based on non-authoritative guidance provided in the AICPA and CIMA publication, “Accounting for and auditing of digital assets”. The guide is carefully written, and we understand how the analysis in it can lead to the ILIA classification. Yet, we also believe that additional analysis could provide potential alternate asset classification paths available within US GAAP, while raising important questions about an ILIA conclusion for most crypto assets.

As a starting point, we would note that an asset classification conclusion is most helpful when examined in the full context of the entirety of the related US GAAP. As a result, also believe it is important to not only examine the list of available asset classifications within existing US GAAP, but also to evaluate what other assets typically fall into the ILIA classification. It is equally important to examine what happens when a crypto asset, classified as an ILIA, is subject to actual transactions taking place within the crypto marketplace.

Some common indefinite-lived intangible assets

We examined a sample of 10-K filings via keyword searches and the XBRL standard elements to identify some of the most common indefinite-lived intangible assets reported. While not the only other indefinite-lived intangible assets, the most common examples we found were specific types of trademarks and brands. We also reviewed the historical perspective of the original relevant accounting standards, including the basis for conclusions in each.

In this broader context, the indefinite-lived intangible assets classification appears to be most commonly used for assets that play a role in generating the key operating revenue and future cash flows for the reporting entity. This would explain why their valuation (and subsequent impairment, if any) is often a version of a discounted cash flow estimation. We note, as a result, that comparability between these assets and crypto assets is likely limited, at best, in most instances.

Some have observed that crypto assets held for investment are similar to other nonfinancial assets held for investment, or to other intangible assets that have active markets on which they can be traded. We believe that this sounds promising at first, but the case for combining crypto assets with these other assets in standard-setting projects weakens when the array of actual transactions in which crypto assets appear are considered. To our knowledge, no other nonfinancial or ILIA asset is used in the wide variety of transactions for which crypto assets are currently used. This observation suggests that combining all of those assets together in a single project would be less than helpful, and possibly not timely enough for crypto assets transactions.

Importance of the actual subsequent transactions

We also reviewed information available to us about the amounts, varieties and types of transactions that are currently being conducted with crypto assets. This review further highlights the importance of not stopping the analysis at the list of available asset classes. For example, one may purchase a beer, a hoodie, or a car with crypto holdings, to name just a few popular retail transactions. When examining 10-Ks, we can also see that some filers are purchasing material amounts of services out of their crypto holdings. We are also aware of material crypto asset transactions that are, in essence, interest-bearing loans. There are many other types of transactions for which a crypto asset or asset pair is central.

As part of the classification exercise, we believe standard-setters and others need to ask whether purchases with the asset-classification equivalent of a trademark or whether loans of an asset-classification equivalent of one's brand truly can reflect the underlying economic meaning of these crypto asset transactions. And, because we are addressing accounting standard-setting, we also have to ask whether the ILIA treatment of such transactions can convey much in the way of decision-useful accounting meaning? This is a key issue with classifying crypto assets across the board as an ILIA—i.e., interpretations of the transactions begin to be decoupled from both economic and accounting meaning.

We note here, but discuss in detail below, that asset classification also must be reviewed in the context of the associated impairment requirements across US GAAP. In essence, similar questions must be asked—i.e., do the impairment requirements associated with a given asset classification make economic or accounting sense for the particular crypto asset in question? We do not believe that they do, in most instances.

In summary, we believe that when considered in a wider context, the current, non-authoritative accounting classification is not representationally faithful or decision useful. We are further concerned about the quality of the information that will be conveyed once those assets are used in actual transactions, if they continue to be classified in this manner.

Asset recognition and subsequent measurement

Fair value model application

If the economic uses of the crypto assets holdings are identified and mapped to traditional assets (and transactions), then in most cases the fair value model of ASC 820 would likely apply. However, an often-asked question, when considering this accounting treatment, is whether a principal market can be identified? We believe that, while further conversation and education with the staff and Board would be warranted, principal markets are indeed identifiable. We have worked on methodologies that have been examined by leading academics and auditors, and have been determined to be aligned with both US GAAP ASC 820 and IFRS 13 fair value requirements.

Our methods take into consideration the challenges of the crypto market ecosystem, specifically markets and exchanges that:

- Are open 24/7, 365 days per year
- Are highly dispersed and fragmented
- Are of differential ‘quality’ with respect to AML and KYC, and other key governance provisions
- Vary with respect to trading volume and crypto asset pairings available

- Include crypto assets that cannot be directly converted into fiat currencies.

In summary, we are convinced that the fair value model of ASC 820, including all its levelling provisions, is readily applicable to most crypto assets. This conclusion is a result of our own rigorous research and analysis, published in a peer-reviewed academic journal, and examined by additional representatives from top-tier audit firms and academic institutions.[2] Our valuation services are further subject to both SOC 1 and SOC 2, Type 1 and Type 2 audits.

Impairment

When an asset is classified as an indefinite-lived intangible asset, it becomes subject to regular analysis to assess whether it has become impaired. So, any analysis done by standard-setters, regulators, the AICPA, auditors or others that results in such a classification should also include an analysis of the companion concept of such an asset's impairment. This context is important to the analysis of whether ILIA classification is appropriate.

As background, there does not appear to be a consistent definition and method of impairment across standards. For example, impairment of securities can be temporary or other-than-temporary. In other places, such as with long-lived assets and some intangibles, impairment occurs at different starting points, e.g., whenever a decline in carrying value below fair value is deemed irrecoverable for long-lived assets, or whenever carrying value dips below fair value for any moment in the case of indefinite-lived intangible assets.

As far back as the basis for conclusions in FAS 121 and FAS 142, we can see the Board noted that constituents had raised concerns about how impairment was being determined and measured. Among other concerns, stakeholders raised questions as long ago as 1995 about recognizing impairment for assets for which the fair value may be subject to temporary market value fluctuations. Although this concern was originally raised in the context of impairment for long-lived assets, the underlying question remains, and perhaps is even more relevant today in light of assets that can be traded regularly on active markets or exchanges: what is the meaning of impairment for long-lived or intangible assets that may be subject to publicly-observable market value fluctuations that may be temporary?

Over the years, the Boards have argued that their varying treatments and a varying definition of impairment are both appropriate; yet, questions about

[2] See "Dynamic Principal Market Determination: Fair Value Measurement of Cryptocurrency", Eyal Beigman, Gerard Brennan, Sheng-Feng Hsieh, and Alexander J. Sannella – Journal of Accounting, Auditing, and Finance, April 14 2021 https://doi.org/10.1177/0148558X211004134

intangible assets' measurement and subsequent measurement seem to resurface regularly. In summary, these lasting issues within the US GAAP impairment model add to our concerns about the appropriateness of the indefinite-lived intangible asset classification for most crypto assets.

Reporting and disclosure

We believe that several areas are important to examine within this category of issues—non-GAAP reporting, notes disclosures, and XBRL-tagging by SEC registrants. We make the following recommendations:

- Examine the trends in and causes of material non-GAAP reporting for entities holding crypto assets by type of holding and entity. The ILIA classification is creating a need for non-GAAP reporting. As such, this readily-observable consequence of such a classification should be both better understood, and considered in future standard-setting discussions related to crypto assets.
- Require disclosures in the notes that, at a minimum, explain to financial statement users the economic use(s) of the crypto assets held, and the fair value by category of economic use.
- Consider adding common practice elements to the XBRL taxonomy to allow for ease of discovery and measurement of crypto assets, especially while they are being classified as indefinite-lived intangible assets:
    - The use of the current standard elements for indefinite-lived intangible assets may lead to significant lack of comparability because of the differences in the types of assets captured by this concept.
    - Alternatively, the current classification appears to also lead to extensive use of extended elements, which can be difficult for non-sophisticated users of the digital reported information to consume and use in analysis.

In summary, there are weaknesses in the current reporting and disclosure requirements under current US GAAP that can compromise both the access to and the relevance of the information currently presented.

What are some suggested next steps?

Standard-setting projects

We assume that the three criteria will have been met once the staff and Board have had an opportunity to review all the related comment letter submissions and outreach findings. As noted at the beginning of this letter, we believe that the approach to future standard-setting projects should incorporate a combination of smaller, targeted projects, and medium-to-larger projects.

We have views on which areas should be subject to smaller, targeted, and time sensitive responses by the Board. We also understand that the Board would like to be thoughtful about smaller projects that could have unintended consequences across US GAAP more broadly. We believe that on balance this concern needs to be weighed against concerns about how the current accounting overlooks the economic uses of and transactions with crypto assets; as a result of this oversight, the present accounting can compromise both the economic and the accounting meaning of what is currently presented in US GAAP financial statements. We would suggest that this observation leads to a pressing call for carefully-designed, smaller projects.

We also hold a strong view that crypto asset accounting and reporting should not be subsumed into broader projects on nonfinancial assets and/or intangible assets; as discussed earlier, these asset classes are generally not comparable to crypto assets when one looks at the wide variety of transactions for which crypto assets are used. Finally, we suggest that all final scoping decisions be made only after extensive discussions with an industry working group, as described next.

Industry-specific working group

We strongly recommend the formation by the FASB of an industry-specific working group. This group would serve as an important source of education and information about the details of this relatively new industry and technology. The scoping of future projects should not be decided until the staff and Board perhaps have a more complete understanding of the various crypto assets, the types/varieties/volumes of transactions, the functioning of the exchanges and protocols, and numerous other aspects of the crypto ecosystem that would be germane to identifying the gaps in current US GAAP, and the magnitude of the project(s) to resolve them in a timely way. These educational and consultative sessions would also be important to identifying which crypto transactions do not have adequate analogues to traditional assets and transactions. In the absence of a FASB-led working group, we would still strongly recommend that members of the staff and Board be engaged directly and consistently with the industry prior to deciding on the scope and timing of future projects.

In closing

Lukka is committed to high-quality standard-setting and will readily support our customers' compliance with US GAAP, regardless of the direction and timing of standard-setting that follows from the agenda consultation. We also will support standard-setters and the standard-setting process in whatever ways we can. We have unique insights across the market across many different types of market participants who are our clients. So, we would close by offering to participate in any ongoing discussions, education, or needed outreach.

Thank you for your time and consideration of our request and proposals. We would be pleased to discuss any of these comments at your convenience.

Sincerely,

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