



September 22, 2021

Ms. Hillary Salo
Technical Director
File Reference No. 2021-004
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

Re: File Reference No. 2021-004

Dear Ms. Salo,

Grayscale Investments, LLC (“Grayscale” or the “Sponsor”) is the world’s largest digital currency asset manager, with approximately \$43.7B in assets under management as of September 17, 2021. Through our family of investment products, we provide access and exposure to the digital currency asset class in the form of a traditional security without the challenges of buying, storing, and safekeeping digital currencies directly. With a proven track record, our products operate within the existing regulatory framework, creating exposure for investors in a secure and compliant manner.

Grayscale is the sponsor and manager of Grayscale Bitcoin Trust (BTC) (OTCQX: GBTC), Grayscale Basic Attention Token Trust (BAT), Grayscale Bitcoin Cash Trust (BCH) (OTCQX: BCHG), Grayscale Chainlink Trust (LINK), Grayscale Decentraland Trust (MANA), Grayscale Ethereum Trust (ETH) (OTCQX: ETHE), Grayscale Ethereum Classic Trust (ETC) (OTCQX: ETCG), Grayscale Filecoin Trust (FIL), Grayscale Horizen Trust (ZEN), Grayscale Litecoin Trust (LTC) (OTCQX: LTCN), Grayscale Livepeer Trust (LPT), Grayscale Stellar Lumens Trust (XLM), Grayscale Zcash Trust (ZEC), Grayscale Decentralized Finance Fund LLC (DeFi), and Grayscale Digital Large Cap Fund LLC (OTCQX: GDLC) (collectively, the “Trusts”).

The following investment products sponsored or managed by Grayscale are also SEC reporting companies with their shares registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended: Grayscale Bitcoin Trust (BTC), Grayscale Ethereum Trust (ETH), Grayscale Digital Large Cap Fund LLC (GDLC), Grayscale Bitcoin Cash Trust (BCH), Grayscale Ethereum Classic Trust (ETC) and Grayscale Litecoin Trust (LTC).

As the Sponsor and manager of the Trusts we are responsible for the day-to-day administration of the Trusts pursuant to the provisions of the Trust Agreement(s). We are also responsible for preparing and providing annual and quarterly reports on behalf of the Trusts to investors in addition to selecting and monitoring the Trust’s service providers. As such, we appreciate the opportunity to respond to the Invitation to Comment (“ITC”) related to digital assets.

As noted in the ITC, there is currently no specific topical authoritative accounting guidance related to digital assets. The lack of authoritative guidance (generally accepted accounting principles (“GAAP”)) often results in accounting for transactions in digital asset that do not necessarily reflect the underlying economics of those transactions and disclosures related to the digital assets themselves that does not reflect the value of the assets.



Due to the lack of authoritative guidance most digital assets, including those underlying the Trusts, currently meet the definition of an intangible asset and are accounted for under Accounting Standards Codification (“ASC”) ASC 350, *Intangibles—Goodwill and Other*. Stakeholders often refer to the AICPA Practice Aid, *Accounting for and Auditing of Digital Assets*, when determining the appropriate accounting treatment of digital assets. The Practice Aid states that certain digital assets would meet the definition of intangible assets and would generally be accounted for under ASC 350; and asserted that certain digital assets did not meet the definitions for cash or cash equivalents, financial instruments or financial assets, or inventory. Under the Practice Aid (and ASC 350), 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 though still be subject to existing GAAP given the intangible asset classification, most notably, stakeholders are unable to apply existing GAAP related to financial instruments or financial assets.

Accounting for digital assets as an intangible under ASC 350 is currently an issue for many market participants who treat digital assets as a means of investment, receive payment in such assets, or participate in active trading of the assets, as it does not appropriately reflect the economics. For example, there are already multiple public companies that are not allowed to measure their digital assets at fair value and therefore continuously write down to the asset to its lowest reported price in each reporting period. These entities have GAAP reporting that does not accurately capture the performance of their investment and investors must look to their Non-GAAP disclosures to understand the impact these investments have on their results of operations.

With the growing number of large institutions and public companies that are either investing in the digital assets or investing in entities that hold digital assets, the accounting related issues are only going to become more pervasive. While we believe the Financial Accounting Standards Board (“FASB”) should develop a fulsome set of accounting guidance model intended to properly reflect the nature, liquidity and value of digital assets that is consistent with the economic reality we believe immediate steps can be taken by the FASB to address the fundamental accounting and disclosure issues outlined above.

Fair Value Accounting and the Fair Value Option

Companies who hold digital assets with a readily determinable fair value should fair value those assets at the end of each reporting period. At minimum, entities should have the opportunity to elect the Fair Value Option (“FVO”) pursuant to ASC 825, *Financial Instruments*, in these circumstances, the entity would apply the fair value measurement guidance contained within ASC 820, *Fair Value Measurement*. Digital assets such as Bitcoin and Ethereum should be considered a financial instrument or financial asset because they are a “contract that conveys to one entity a right to...exchange other financial instruments on potentially favourable terms with the second entity” (definition of a financial asset pursuant to the FASB Codification – Master Glossary).

It is possible to obtain the information necessary to fair value digital assets despite its volatility and, in some cases, market fragmentation. Many stakeholders, if required to fair value or to evaluate impairment, already make a determination of their principal market and reference transaction prices in their principal market to determine the fair value of an asset or liability. Additionally, stakeholders do not carry the assets at fair value and have not impaired the assets already make disclosures as to the fair value of the assets. ASC 825-10-45-4 states that the changes in fair value of an item for which the FVO is elected should be recognized in net income (or another performance indicator if an entity does not report net income). By allowing the FVO election and associated classification of digital assets, investors will benefit from the disclosures in existing GAAP for assets within this reporting framework and will ultimately allow for the comparability between periods of the issuer investing in the assets as well as the comparability across entities that invest and/or hold similar types of digital assets and follow the same accounting treatment.



Average Cost Method

As investment companies dispose of digital assets, an appropriate cost relief methodology is selected. Investment companies should have the opportunity to select the average cost method when selling digital assets such as Bitcoin and Ethereum. Investment companies look to ASC 946, *Financial Services – Investment Companies* for authoritative accounting and reporting guidance. In accordance with ASC 946-320-40-1, “the cost of investment securities held in the portfolio of an investment company and the net realized gains or losses thereon shall be determined on the specific identification or average-cost methods. An investment company shall use only one method for all of its investments.” Specifically for the Trusts, realized gains and losses are calculated using the specific identification method because of the current categorization of digital assets as nonfinancial assets.

In addition to permitting the FVO election, applying the average cost method to calculate realized gains and losses for digital assets would be appropriate for the following reasons:

1. Using the average cost method more accurately reflects the realized gains and losses on use of digital assets in the periods in which digital assets are transacted. The average cost method better represents the cost basis of digital assets disposed because it incorporates the cost of the entire digital assets position.
2. Tracking the specific cost basis of each unit of digital assets can be incredibly burdensome.
3. Specifically related to Grayscale and the Trusts, similarly structured trusts that hold a single commodity asset use the average cost method to record gains and losses on investments in the relevant commodity.

By allowing the calculation of realized gains and losses using the average cost method, investors would benefit from the comparability between commodity trusts and reduce the burden of tracking the specific costs basis of each digital asset unit.

In closing, an appropriate framework should be developed that will either mandate entities to fair value digital assets or allows entities to elect the fair value option to account for digital assets [and utilize the average cost method to calculate realized gains/losses]. Accounting for digital assets at fair value would better reflect the reality and economics of digital assets and provide greater transparency to investors.

We appreciate the opportunity to present our point of view on this topic and FASB’s consideration of these pervasive issues. We would welcome the prospect of discussing these matters further. Should you have any questions or desire further clarification on any of the topics discussed in this letter please do not hesitate to contact us.

Thank you,

Ed McGee

Edward McGee
VP, Finance
Grayscale Investments, LLC