CHAMBER OF DIGITAL COMMERCE

Chamber of Digital Commerce
1667 K Street, NW, Suite 640
Washington, DC 20006

September 22, 2021

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 are writing in response to your invitation to comment on the FASB agenda. We urge the board to add standard setting for digital assets/cryptocurrency on the near-term agenda. We are confident this letter provides adequate support for the pervasiveness of the issue, appropriate, cost beneficial solutions and finally, with a clear and identifiable scope to the project.

We strongly believe that, due to pervasive impact, exponential increase in market capitalization and adoption of digital assets, the accounting for cryptocurrencies is the most critical new financial reporting issue facing users and preparers of GAAP financials. We believe, as supported by increasing market adoption, that cryptocurrencies represent the next evolution in increasing efficiency of financial and non-financial transactions.

I. There is a readily identifiable need to improve GAAP for digital assets.

For investors, corporates, and professional service providers such as accountants and auditors, cryptocurrencies and digital assets are now part of daily business. Many of the largest investors in the U.S. (hedge funds, RIAs, and institutional funds) have followed the trend set by smaller and more nimble investors by placing equity investments in startup

blockchain companies, buying digital assets/tokens, or investing in mining (transaction confirmation services for public blockchain networks).

Public and private companies now acquire, transact, sell or trade digital assets as a hedge against debasement of their cash treasury, to facilitate their product offering ("crypto projects"), as renumeration for network confirmation services (mining and staking income), and/or to facilitate payment for products and services.

As activity in the blockchain and digital asset industry continues to grow by multiples each year, public accounting firms and service providers have seen dramatically increased demand for accounting and audit services, IPO readiness services, digital asset fund administration or audit services, tax, as well as technical accounting advisory services. In recent years firms have had to decline attestation engagements where accounting positions for emerging business models in some part based on digital assets are not easily slotted into current GAAP. Indeed, for PCAOB financial statement audit engagements, the procedures performed over, or reporting relevant to, digital assets are both common areas of PCAOB commentary.

In sum, effectively all relevant constituents involved in the digital asset economy today note that the lack of GAAP clarity for digital assets is an identifiable need to facilitate better investor information, improved company accounting and financial governance, as well as consistent third-party CPA service to market participants.

a. Total Growth of Cryptocurrencies

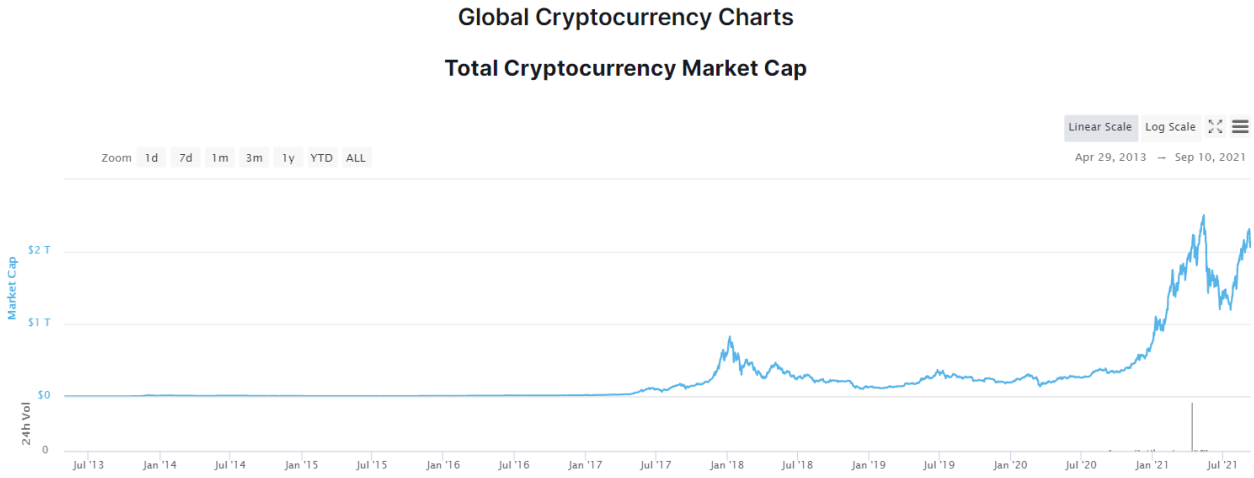
Digital assets and specifically, cryptocurrency has already grown and is expected to continue to grow faster than any financial instrument or technology in history.

The Internet grew at a rate of 63% per year between 1990 and 2000, the fastest adoption of any technology in human history. Since Q3 2020, the number of cryptocurrency users has more than doubled. As of June 2021, the number of global cryptocurrency users reached 221 million. To show how quickly this market is accelerating, it took nine months for the global crypto users to grow from 65 million to 100 million, and it took approximately four months to double the worldwide crypto population from 100 million to 200 million.[1]

Bitcoin, the largest cryptocurrency by market capitalization, has grown at an average annual rate of 250% for the past ten years. The appreciation of bitcoin's value triggered a market capitalization in April of 2021 of over $1.1 trillion that surpassed Facebook's market cap. It is the first time in history that an open-source piece of software generated this much value by being an accessible open network in cyberspace that anyone in the world could plug into.

[1] Crypto.com, *Measuring Global Crypto Users – A Study to Measure Market Size Using On-Chain Metrics*, (July 2021)

If we zoom out and look at the bigger picture, it is clear that we are seeing an S-Curve of adoption, similar to that of the Internet and of every other technology. The illustration below documents the growth of cryptocurrency holdings from $1.2 billion in 2013 to $2 trillion in 2021. Much of this growth is happening domestically and has a direct impact on U.S. investors, corporates, and auditors.



https://coinmarketcap.com/charts/

This adoption rate is tied to a greater macro-level trend, which some analysts call the "Exponential Age." The exponential growth of network businesses made possible by the Internet, which started with the technology giants of today (Amazon, Apple, Microsoft, Facebook, Google), in which their business model and value is centered around their networks.

As it relates to cryptocurrencies, these technologies utilize the same network model where their value is directly correlated to the number of users on the networks, except that in these token models, the holders of the tokens get a direct economic benefit from the growth of the networks, as opposed to the shareholders vs users of Facebook, Google, etc.[2]

In addition, Deloitte's 2021 Global Blockchain Survey discovered that 76% of respondents from the business community believe that digital assets will either serve as a strong alternative to fiat currencies or outright replace fiat within the next 5 to 10 years.[3]

A survey from Fidelity Digital Assets has revealed that seven in 10 institutional investors from around the world, including advisors, family offices, pensions, hedge funds, and endowments, plan to buy or invest in digital assets within the next five years.[4]

2 *Raoul Pal's Introduction to the Exponential Age,* (April, 2021), https://www.youtube.com/watch?v=0tJrla31t8I&t=10s

3 *Deloitte's 2021 Global Blockchain Survey,* (April, 2021), https://www2.deloitte.com/us/en/insights/topics/understanding-blockchain-potential/global-blockchain-survey.html

4 *Fidelity Digital Assets' 2021 Institutional Investor Digital Assets Study,* (July, 2021), https://www.fidelitydigitalassets.com/articles/digital-asset-survey-2021

Another unique factor with digital assets is the tremendous growth of brand-new adjacent industries. For example, crypto mining, which leverages unique computers to generate new digital assets, has grown significantly. As of 2019, the global mining market was $888.2 million.[5] The global digital asset mining hardware market is projected to grow by $2.80 billion at a CAGR of over 7% during 2020-2024.[6] These mining companies are partnering with leading energy corporations to develop what will become the future critical infrastructure of the world's digital monetary layer. This is creating long-term quality jobs and allowing existing utility companies their own access point into the ecosystem.

An additional way to understand the future potential for this market is to analyze the new talent entering the space. According to the LinkedIn Jobs Report for 2020, blockchain-related jobs became number one in terms of job demand. Also, on the largest freelancing platform, UpWork, blockchain skills are rated number one in terms of the fastest-growing skills of 2020 with an increase of 6,000%.[7] Increased demand is bringing some of the brightest minds from around the world to enter the digital asset markets to help shape the future and growth of this ecosystem.

b. Public Companies and Digital Assets

Not only do all on-chain metrics show massive adoption of cryptocurrencies, but during the first eight months of 2021, many publicly traded companies, private companies and even governments have purchased bitcoin and other digital assets as a hedge for fiat inflation and treasury reserves. Based on on-chain analysis, currently, public companies show about 190,000 bitcoin on their balance sheets (about $8.7 billion) while ETF's and mutual funds hold about 683,000 bitcoin (about $32.4 billion, see below). According to Crypto Fund Research, at the end of Q2 2021, crypto funds collectively managed about $52.4 billion, and only 39% of all funds managed less than $10 million in assets, a figure that is shrinking by the day.[8] While the dollar value varies depending on whether we include all crypto assets or just bitcoin, the overall exponential growth remains constant.

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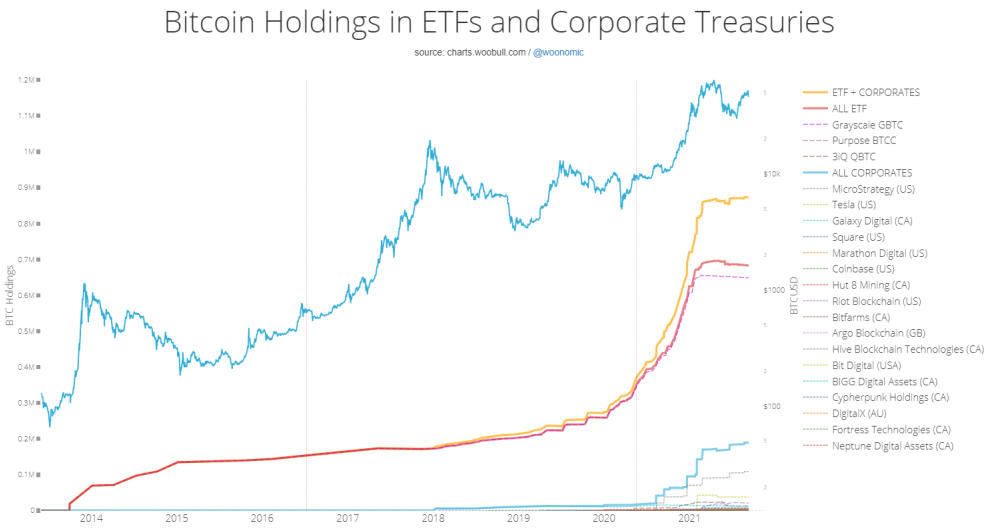
[5] Market Watch, *Cryptocurrency Mining Market Size is estimated to grow at CAGR of 16.1% During 2021 – 2025 with Top Countries Data, (*May, 2021)

[6] *$2.80 Billion growth expected in Cryptocurrency Mining Hardware Market | 5.72% YOY growth in 2020 amid COVID-19 Spread | APAC to Notice Maximum Growth | Technavio*, (May, 2021), https://www.prnewswire.com/news-releases/-2-80-billion-growth-expected-in-cryptocurrency-mining-hardware-market--5-72-yoy-growth-in-2020-amid-covid-19-spread--apac-to-notice-maximum-growth--technavio-301283942.html

[7] *The Blockchain Academy, The Global Blockchain Employment Report*, (2021)

[8] *2021 Q2 Crypto Fund Report,* (September, 2021), https://cryptofundresearch.com/q2-2021-crypto-fund-report/



https://charts.woobull.com/bitcoin-etf-corporate-holdings/

Companies such as Walmart, Amazon and Apple have all posted job listings for positions such as “Cryptocurrency Lead” and “Digital Currency and Blockchain Product Lead”. Facebook is inching closer to their release of Diem, their own digital currency; they recently announced that their wallet, Novi, has secured money transmission licenses in nearly every state and is just about ready to launch.[9]

Recently, Visa and Budweiser both made headlines as they started purchasing non-fungible tokens (NFT’s). NFT is a unique digital asset designed to represent ownership of a virtual item; Visa purchased a Cryptopunk for $150,000 while Budweiser paid $120,000 in purchasing a fan art NFT as well as the domain beer.eth.[10] [11] Mastercard recently announced it is acquiring CipherTrace, a cryptocurrency intelligence company that helps customers enhance their security and monitor fraudulent crypto activities.[12] Coinbase CEO Brian Armstrong recently Tweeted that Coinbase has received board approval to purchase over $500 million of crypto onto their balance sheet. In addition to this, they will be investing 10% of their profits into the cryptocurrency markets.

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[9] Facebook to Introduce Crypto Wallet Novi, (August, 2021), https://www.nasdaq.com/articles/facebooks-novi-digital-wallet-is-ready-to-be-released-2021-08-19

[10] *Visa jumps into the NFT craze, buying a ‘CryptoPunk’ for $150,000,* (August, 2021), https://www.cnbc.com/2021/08/23/visa-buys-cryptopunk-nft-for-150000.html

[11] *Budweiser uses $120K to purchase ‘fan art’ NFT and Beer.eth domain,* (August, 2021), https://cointelegraph.com/news/budweiser-uses-120k-to-purchase-fan-art-nft-and-beer-eth-domain

[12] *Mastercard acquires CipherTrace to enhance crypto capabilities,* (September, 2021),

2021 has also seen a number of Bitcoin- and Ethereum-focused mining businesses become publicly listed through reverse mergers or special purpose acquisition SPAC vehicles. These issuers are crypto-native public filers that conduct a significant volume of their financial transactions in digital assets. The top 10 public crypto mining companies have a market capitalization of over $12.5 Billion.

Name	Ticker	Market Capitalization ($B)
Marathon	MARA	3,546
Riot	RIOT	2,811
Hive Blockchain Tech	HIVE	1,154
Argo	ARBKF	723
Hut8 Mining Corp	HUT8	1,382
SOS Limited	SOS	514
Greenidge Generation	SPRT	462
Bit Digital Inc	BTBT	571
Clean Spark	CLSK	459
Bitfarms		914
Total		**12,536**

As seen by the many examples above, guidance from the FASB and IFRS is critical as companies scramble to figure out how to report material amounts of these assets and issue financial statements that accurately portray their underlying economic positions.

c. Banks and Digital Assets

In addition to the various public and private companies purchasing digital assets, 55% of the world's top 100 banks, are investing in the digital asset industry.[13] This intersection of traditional finance and digital assets was in some part enabled by the Office of the Comptroller of the Currency (OCC) announcing that "*Federally Chartered Banks and Thrifts May Provide Custody Services For Crypto Assets*" in July 2020. [14]

[13] 13 top-banks investing cryptocurrency blockchain technology, (August, 2021), https://markets.businessinsider.com/news/currencies/13-top-banks-investing-cryptocurrency-blockchain-technology-funding-blockdata-bitcoin-2021-85

[14] *OCC News Release 2020-98 (July 22, 2020)*: https://www.occ.gov/news-issuances/news-releases/2020/nr-occ-2020-98.html

Furthermore, companies such as NYDIG have laid out the structural foundation to make it simple for banks to offer digital assets to their consumers. Even Fidelity has recently provided a model with extremely bullish sentiment towards bitcoin, estimating its price to hit $100,000,000 by 2035.[15] Perhaps more compelling than Fidelity's price predictions is that the large, registered investment advisor has been working for years to bring bitcoin exposure to their current investment offerings.

II. There is a sufficiently persuasive need to improve GAAP for digital assets

While we believe the need for GAAP clarity is readily identifiable, the need is also sufficiently persuasive to demand action as soon as possible.

Management of public companies struggle daily with the square-peg-round-hole problem presented by accounting for digital assets. MicroStrategy has been vocal about the difficulty presented by accounting for bitcoin treasury assets under ASC 350. We agree that the need for public and private companies to present non-GAAP disclosures creates significant burdens and a disparity between GAAP financials and non-GAAP disclosures. This alone presents a pervasive need as the current GAAP treatments do not adequately allow for GAAP financials to present economic reality.

Therefore, investors in both private companies are presented with the uncertainty and risk of assessing company to company performance with a wide disparity in accounting methods and disclosures.

As an additional and persuasive example, current best-attempts at GAAP accounting for digital assets can diverge when a corporate is holding a digital asset in self-custody, versus using a professional third-party custodian. Specifically, one company with balance sheet assets held by a third-party can be booked as receivables and market to market, while the same company's balance sheet assets held in self-custody can be treated as indefinite lived intangibles and booked at cost.

Last but not least, the professional services practitioners that consult with public and private companies, as well as audit public and private companies require clarity in GAAP for digital assets in order to effectively support market participants. Auditors play a critical role in financial markets and require clear and applicable GAAP treatments in order to perform this function well.

Therefore, each relevant constituent, corporates, investors, and auditors could benefit from updated GAAP treatment of digital assets. Together, we believe the need is therefore pervasive.

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[15] *Fidelity Expects Bitcoin (BTC) Price to Touch $100 Million by 2035, (September, 2021),* https://www.coinspeaker.com/fidelity-bitcoin-btc-100-million-2035/

III. There are feasible solutions to improve GAAP's application to cryptocurrency and digital assets.

Currently, no authoritative guidance exists for the accounting for what we now see as one of the most significant financial assets today, digital assets and, particularly, cryptocurrency. Non-authoritative accounting guidance is currently being applied for financial reporting on these assets which is leading to inconsistently applied financial reporting and, in a manner, not useful to the stakeholders of the financial information. Investment funds have generally adopted a fair value approach to reporting of digital assets, whereby assets are carried at fair value on the balance sheet, but other reporting sectors, in other industries and other entities, use other varying non-authoritative guidance.

In April 2019, the Chamber of Digital Commerce, the world's largest digital asset trade association whose mission is to promote the use of digital assets and blockchain technology, published a survey of its approximately 200 members related to the accounting treatment of digital assets. The survey results published to its membership disclosed that of the survey participants, 43% accounted for these assets as investments under investment securities standards and 36% accounted for digital assets as inventories. Fourteen percent of respondents indicated they accounted for these assets as intangible assets. The survey clearly indicated a broad range of accounting practices, demonstrating not only a need for some flexibility when determining appropriate accounting treatments but a need for significantly more guidance on when to apply certain accounting principles.

Following this, in December 2019, the AICPA issued a non-authoritative practice aide providing non-authoritative guidance for accounting for digital assets. The conclusion of the work group authoring this publication is that cryptocurrency assets should be accounted for as an intangible asset under ASC 350 which subsequently, reluctantly, became a more common accounting approach for crypto assets.

Applying ASC 350, where assets are, basically, reported at lower of cost or impaired fair value, does not adhere to the fair value model, which is widely embraced by more recent accounting standards such as derivatives standards, standards on marketable equity securities and others. As such, the users of financial statements containing cryptocurrencies are routinely creating pro forma, non-GAAP adjustments and adjusted financials to completing their analysis and make financial decisions. Also, by failing to apply the fair value accounting model, we have created a potentially significant difference between U.S. GAAP and IFRS international accounting. IFRS has not yet formulated authoritative guidance for cryptocurrencies but is postured to do so potentially applying a fair value model, as is being applied currently on a non-authoritative approach, internationally. We strongly urge the alignment of US GAAP with IFRS to prevent inconsistent or selective application of standards.

Current accounting practices that apply ASC350 are cost prohibitive. Applying ASC350 clearly is costly to the financial reporting preparers, in public and private companies, in

accumulating the detail necessary to track the combination of cost basis and fair value data. The investors/users of the financial reporting, who currently must determine impact on the financial statements by applying the fair value model to the non-fair value financial reporting under ASC350, and finally, auditors, who must attest to the accuracy of the rather onerous details necessary to account for a material cryptocurreny portfolio using ASC 350.

Considering the data above related to cryptocurrencies, there are substantial investor impacts from reporting of digital assets. Significant speculative and investment motivation drive the need for more relevant fair value information in the financial reporting. Absent of that fair value data in the financial reporting, the investor in the assets reported on the financials are forced to use alternative data sources from the financial statements or non-financial statement data to arrive at the fair value impacts for investment and analytical investment decisions, thereby devaluing the financial statements reported under accounting methods not useful to these stakeholders.

In conclusion, clear and authoritative GAAP guidance would minimize excess costs and ensure that the financial reporting is relevant and useful to all users and stakeholders and remove barriers for this evolution in the financial markets as well as align US GAAP with international financial reporting.

IV. The perceived benefits of GAAP clarity for digital assets are high and the expected cost is low.

Our good faith estimate is that the value and impact of additional clarity for digital asset GAAP accounting would be high and enduring as digital assets continues to capture market share of other asset classes.

Admittedly, we cannot opine on the cost of updating GAAP to reflect fair value treatment of digital assets, but we do provide notes on the scope in the following section. We believe that the scope is sufficiently narrow to warrant the conclusion that the benefit would outweigh the attendant costs.

In conclusion, it appears GAAP fair value models, particularly for digital assets with a ready market, provides a cost-effective approach for financial reporting that is highly relevant to the stakeholders of the financial reporting.

V. There is a Clear and Identifiable Scope for Agenda.

We believe that there is a clear need and identifiable scope for establishing authoritative accounting guidance for cryptocurrencies.

- Cryptocurrency scope under GAAP, defining cryptocurrencies separately from other digital assets and other digital constructs
- The accounting for marketable vs. nonmarketable cryptocurrencies and digital assets

- Accounting standards that are applicable for all industries and carve outs, as needed, for any industry specific standards.
- A focus on fair value accounting for cryptocurrencies to reflect the expectations and needs of the users of GAAP financials and to ensure such changes can be accomplished with a cost-effective use of the FASB's time and resources.

Clear definitions need to be established for what is encompassed in cryptocurrencies and digital assets. By clearly defining cryptocurrencies and digital assets, a concise scope can be arrived at in standard setting. Our proposal for the scope of cryptocurrencies are:

> Cryptocurrencies are digital records that are created using cryptography for verification and security purposes, on a distributed ledger (referred to as a blockchain). The distributed ledger keeps a record of all transactions on a blockchain network. Cryptocurrencies are characterized by use as an active medium of exchange to access goods or services, or as a financing vehicle, or a store of value. The rights and obligations associated with digital assets vary significantly, as do the terms used to describe them. Additionally, cryptocurrencies within the scope of this guidance must have an active market, with an adequate volume of verifiable trades and appropriate transactional history to establish a sustainable market and medium of exchange.
>
> As cryptocurrencies, especially in this early stage of adoption, have demonstrated higher volatility than other financial assets and a number of currencies have rapidly lost market capitalization and velocity due to a variety of circumstances, digital assets that would otherwise fall under the definition of this guidance but have not demonstrated a sustainable market and use as a medium of exchange, including adequate trading volume for a reasonable amount of time are to be accounted for under ASC 350, Intangibles—Goodwill and Other until such time as they demonstrate that they represent an active market under this guidance. Assets that fall within the scope as a result are to be accounted for under the modified retrospective approach.

We propose that FASB capture relevant parallels from key sections of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, regarding equity securities. Specifically, we believe that the cryptocurrency accounting guidance needs to differentiate between marketable and non-marketable assets, which in turn provides clear guidance for when fair value models are to be applied and when alternative valuation methods are more appropriate.

The proposed accounting for cryptocurrencies should also provide guidance on the accounting application for all industries, carving out any specific industries as appropriate. By way of example, there are today many examples of tokenized equity in a private company – these digital assets are intended to be digital wrappers for securities; while they benefit from the technology underpinning cryptocurrencies, they should not be classified as cryptocurrencies. Similarly, USD stablecoins, or tokenized claims on U.S. Dollars held by

the issuer, may be most properly defined as cash equivalents as they are assets enabled by public blockchain networks, but not cryptocurrencies.

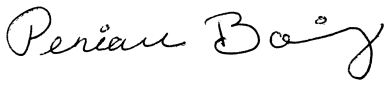
Further definition on use should also provide guidance on other accounting applications that can apply to all industries. By breaking down the blockchain ecosystem further, application of accounting framework that already exists, can be applied based upon use and application of digital assets. As an example, we believe ASC 820 and the fair value hierarchy aligns with differing levels of digital asset valuation for financial reporting standards.

Conclusion

The rapid growth of digital assets has already occurred and is clear to see today, in not only public and private companies, but also across virtually all industry lines. We believe that clarity in financial reporting of this highly pervasive financial asset is imperative in maintaining clear, relevant, and transparent financial reporting for the investors and other stakeholders of what will soon be the majority of U.S. companies reporting digital assets.

We request that the Board seriously consider these facts and act on setting standards for digital assets. Further, we at the Chamber stand ready to provide the Board and technical staff access to considerable resources in pursuing this project.

Sincerely,



Perianne Boring
Founder and President
Chamber of Digital Commerce

The companies listed below join us in supporting this letter.

Anchorage Digital National Bank Association
Armanino, LLP
Bitwise Asset Management, Inc.
Blockdaemon
BlockFi, Inc.
Bloq, Inc.
Brownstone Research
Castle Island Ventures
Compass Mining, Inc.
Compute North LLC
Cooley LLP
Core Scientific, Inc.
Dapper Labs

Digital Currency Group, Inc.
DLx Law
Elliptic Enterprises Limited
Eris Exchange LLC
FinClusive Capital, Inc.
Flexa Network, Inc.
GEM Mining
Gemini Trust Company, LLC
I-Chain Capital
John L Williams, Esq. President, Agents and Corporations, Inc.
Kirkwood Bank of Nevada/GenuBank
Liquid Advisors, Inc.
Lukka, Inc.
Marathon Digital Holdings, Inc.
Martin Davis PLLC
MicroStrategy, Inc.
Nelson Mullins Riley & Scarborough LLP
Notabene, Inc.
Off the Chain Capital
Osprey Funds, LLC
Overstock.com, Inc.
Parsons and Whittemore
Paxos Trust Company
Ripple Labs, Inc.
Securrency, Inc.
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Silvermine Capital Advisors, LLC
Solidus Labs, Inc.
The Accounting Blockchain Coalition
The Maker Foundation
Titan IO, Inc.
tZERO Group, Inc.
VeriBlock, Inc.
Vesper Brewing Co Ltd
Wipfli, LLP
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