ISDA Safe, Efficient Markets

June 7th 2021

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

By email: director@fasb.org

Re: Agenda Request: Investors accounting for crypto assets

Dear Ms. Salo,

The International Swaps and Derivatives Association's ("ISDA")[1] Accounting Committee (the "Committee") appreciates the opportunity to provide an agenda request to the Financial Accounting Standards Board ("FASB" or the "Board"). Collectively, the Committee members have extensive professional expertise and practical experience addressing accounting policy issues related to financial instruments and specifically derivative financial instruments.

The Committee requests that the FASB consider a topic to its Technical Agenda involving practice issues regarding investors or holders accounting for crypto assets. The Board has previously decided against adding a project on digital currencies to the technical agenda. Overall, and as further described below, the Committee believes this practice issue involving the accounting for cryptocurrency have become far more pervasive across industries and can be resolved in a short-time frame. This letter provides the Committee's formal agenda request and overall views on why this topic should be added to the agenda.

Overview

On October 21, 2020, the Board addressed the issue of accounting for crypto assets (including "cryptocurrencies") after receiving three agenda requests. All three agenda requests shared a common concern that crypto assets are accounted for as indefinite-lived intangible assets. Currently, crypto assets generally do not meet the definitions of cash, inventory, or financial assets in current guidance, and therefore, cryptocurrencies would be accounted for as indefinite-lived intangible assets. The Board concluded at that time that the concerns raised in the crypto currency agenda requests were not pervasive and therefore decided not to add a project to its agenda.

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 950 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

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Notwithstanding this decision by the Board, the Committee believes the issue is pervasive and that standard setting is necessary to provide an accounting model that can be consistently applied to more appropriately reflect the economics and intent of trading, investing, and transacting in crypto assets:

- Bitcoin and Ethereum, the two most common cryptocurrencies, have a market capitalization as of May 2021 of approximately $838 billion[2] and $400 billion[3], respectively. Combined, this is approximately 12% of gold's total market capitalization (~$10 trillion) compared to $215 and $44 billion, respectively in October 2020.

- There is a growing number of banks and financial institutions offering crypto asset related products and services. Specifically, similar to the increasing number of fintech companies offering crypto related services and products, banks[4] are also setting up trading desks to provide customers with exposure to crypto assets. This includes buying and selling crypto assets, as well as derivatives, structured notes and other transactions that reference crypto assets. Over the past year, the Office of the Comptroller of Currency (OCC) issued statements related to digital assets, such as allowing national banks to provide custody services for digital assets.[5] Certain companies have also begun to offer crypto asset lending in which the holder of cryptocurrency can lend their assets to a borrower in order to earn interest. Not only have new derivatives products and financial arrangements linked to cryptocurrency been introduced to the market, but consumer products are also being made available. Companies are also creating investment vehicles, such as trusts, in order to give market participants an opportunity to invest in digital assets through traditional investment products. The increased volume in crypto asset related transactions is not limited to retail investors or speculators but also includes institutional investors. For example, Deutsche Bank plans to create a trading and token issuance platform, bridging digital assets with traditional banking services, and managing the array of digital assets and fiat holdings in one easy-to-use platform.[6] Coinbase, the largest cryptocurrency exchange in the US went public on April 14, 2021.

- There are a wide variety of products that are now being offered and used by market participants, market makers, and investors. The Chicago Board Options Exchange ("CBOE") offered the first Bitcoin futures contracts in 2017. The size of the futures market has also grown considerably over the past year. Global open interest stood at $3 billion on January 7, 2020, of which the Chicago Mercantile Exchange ("CME") contributed just 7% or $224 million. As of January 6, 2021, the global open interest increased to $11 billion of which CME contributed $2.1 billion.[7] In 2021, not only are large exchanges such as CBOE and CME offering derivatives on crypto assets, but traditional banking and brokerage companies[8, 9] are beginning to offer crypto derivative products as well.

- Investors and users of cryptocurrency platforms are being offered credit and debit card type products in order to use the cryptocurrency held in their accounts to make purchases for everyday transactions. Further, over the past few years we have seen acceptance of initial coin offerings, which is the cryptocurrency industry's equivalent to an initial public offering. A company looking to raise money to create a new coin, app, or service launches an initial coin offering as a way to raise funds.

[2] Bitcoin Price | BTC Price Index and Live Chart — CoinDesk 20
[3] Ethereum Price | ETH Price Index and Live Chart — CoinDesk 20
[4] Goldman Sachs Relaunching Crypto Trading Desk After 3-Year Pause - CoinDesk
[5] Interpretive Letter 1170, Authority of a National Bank to Provide Cryptocurrency Custody Services for Customers (occ.gov)
[6] Deutsche Bank Quietly Plans to Offer Crypto Custody, Prime Brokerage- CoinDesk
[7] CME Becomes Biggest Bitcoin Futures Exchange as Institutional Interest Rises - CoinDesk
[8] Cryptocurrency Trading | TD Ameritrade
[9] Goldman Sachs Offering Bitcoin Derivatives to Investors - CoinDesk

- Many investors, speculators, and other market participants have been entering into the crypto market through a various number of products for reasons such as an investment opportunity, or to use crypto assets for the purchase and sale of goods. U.S. businesses and American entrepreneurs are investing billions of dollars in this important innovation. Business intelligence software provider MicroStrategy Incorporated, for example, had acquired and was holding a total of 70,469 bitcoins as of December 31, 2020, which had an approximate market value of $2.0 billion at the time, yet the bitcoin were reflected on its year-end balance sheet as having a carrying value of only $1.1 billion due to the accounting treatment under GAAP currently in effect. In addition, Grayscale Investments now has bitcoin holdings in its Bitcoin Trust of over $30 billion, of its $36 billion in assets under management, as of March 17. Jack Dorsey, CEO of Twitter and Square, recently partnered with musician and entrepreneur Jay Z to create a $23 million bitcoin trust. These are some very recent examples of large digital asset investments by public companies and others. In the past the longevity of the crypto market was very uncertain. However, considering the number and type of market participants, wide array of products that are now offered in the market, and the increasing and sustained value of crypto assets is proving this has become a pervasive issue.

Committee View

As noted above, crypto assets generally do not meet the definitions of cash, inventory, or financial asset, as there is no right to receive cash or another financial instrument from a second entity. Certain ‘stable coins’ have their value linked to a specific asset or commodity (e.g. the US Dollar) and may meet definition of a financial instrument in certain circumstances, for example when the stable coin is redeemable from the issuing entity for cash. However, most cryptocurrencies, including the most common, Bitcoin and Ethereum, currently meet the definition of an intangible asset and are accounted for under Topic 350, *Intangibles—Goodwill and Other*. Stakeholders 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 cryptocurrencies (a subset of digital assets) would meet the definition of intangible assets and would generally be accounted for under Topic 350, and asserted that cryptocurrencies did not meet the definitions for cash or cash equivalents, financial instruments or financial assets, or inventory. Under the Practice Aid (and Topic 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.

Accounting for crypto assets as an intangible under Topic 350 is an issue for many participants who treat crypto assets as a means for investment and active trading and does not appropriately reflect the economics of the assets in the financial statements.

Under the current model, companies will only have the ability to write down the value of crypto assets and will not have the ability to recognize any gains until the assets are transferred to another party. This is misleading and not a faithful representation of these assets to users of financial statements. as the balance sheet will not reflect the true liquid nature and value of these assets. For example, companies who have been invested in Bitcoin over the past year would have had to have impaired their assets to a price of $4,000 per Bitcoin. At points in 2021, these companies would now reflect the current market value in excess of $50,000. The inability for companies to reflect this change in value of a liquid asset that is held for trading could be misleading to users of the financial statements.

Further, as new crypto products continue to arise, the current model may be confusing to users of the financial statements and create opportunities for accounting arbitrage. For example, investment vehicles, such as trusts that hold cryptocurrency, may issue shares that meet the definition of a financial instrument. As a result, investors in these instruments that are backed only by cryptocurrency holdings may carry the shares at fair value, while being unable to recognize any changes in the value of cryptocurrencies held directly on the balance sheet.

As a result, we believe an accounting model should be designed to properly reflect the nature, liquidity and value of the crypto assets and is consistent with the economic reality that entities and individuals are trading and investing in these products for their inherent value. A more appropriate accounting model for highly liquid crypto assets that would meet the definition of readily convertible to cash, similar to the derivative definition would be to allow the fair value option. Since derivatives, an instrument that is readily convertible to cash and tied to an underlying, is accounted for at fair value, we believe similar instruments such as crypto assets should be permitted as well.

The Committee believes a framework should be developed that will allow all entities, and not just investment companies and broker dealers, to account for crypto assets at fair value. Accounting for crypto assets at fair value would better reflect the economics and intent for why companies are transacting and investing in these products. We believe these views are consistent with the letter from Congress to the FASB on May 12, 2021, regarding the need for authoritative guidance in accounting for these assets.

Conclusion

Based on the views expressed above, the Committee believes this is a topic worthy of reconsideration by the Board. The Committee members appreciate the Board's consideration of this issue and would welcome the opportunity to discuss it further. Should you have any questions or desire further clarification on any of the matters discussed in this letter please do not hesitate to contact the undersigned.

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Chair, North America Accounting Committee

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