



June 8, 2017

Via electronic submission to: director@fasb.org

Mr. Russell Golden, Chairman
Ms. Susan Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Agenda Request – Determining the Appropriate Recognition, Measurement, Presentation, and Disclosure for Digital Currencies and Related Transactions

Dear Mr. Golden and Ms. Cosper:

We request that the Financial Accounting Standards Board (FASB) add to the Board's or Emerging Issues Task Force's (EITF) agenda a project to address the accounting for digital currencies.

The Chamber of Digital Commerce (the Chamber) is the world's largest trade association representing the blockchain industry. Our mission is to promote the acceptance and use of digital assets and blockchain-based technologies. Our membership is comprised of over 100 companies innovating with and investing in blockchain-based technologies, including financial institutions, exchanges, software companies, top consultancies, and cutting edge fintech start-ups.

The Chamber is the founder of a number of industry initiatives and working groups, including the Blockchain Alliance, Blockchain Intellectual Property Council, Digital Assets Accounting Consortium, Global Blockchain Forum, Smart Contracts Alliance, and others¹.

The Digital Assets Accounting Consortium (DAAC) is a working group of the Chamber that is comprised of accounting and technology professionals in the blockchain ecosystem that are developing accounting and reporting standards for digital assets, advocating for appropriate generally accepted accounting principles (GAAP) standards, and engaging with relevant standard-setting bodies. The DAAC also provides input to government and industry on the impact blockchain-based technologies may have on the future of accounting and auditing methods.

Introduction

We believe blockchain technology is one of the most important technical advancements in modern finance and will have impacts as big as transportation, telephony, and the internet. New products and services derived from blockchain technology have the potential to revolutionize entire categories of industry – including banking, government records, title and asset ownership, digitization and encryption of medical records, digital identity, trading, clearing and settlement, secure voting systems, and many others. Blockchain technology is a newly-created medium of and operating system for money (or anything of value, for that matter) and allows for digital currencies to be programmable.

Background – Bitcoin, Blockchain and Beyond

When we talk about digital currencies, such as bitcoin, it is important to make a distinction between bitcoin the currency, and the blockchain. A digital currency is a digital asset and represents a method of exchange that does not physically exist but rather exists digitally. The most widely used digital currency is bitcoin, but it is not the only digital currency. Transactions involving digital currencies allow parties to transact without an intermediary, such as a bank or other financial institution. Digital currency transactions rely on underlying technology called blockchain technology.

Blockchain technology uses a peer-to-peer decentralized and distributed network that allows parties that do not know each other to transact securely without the use of an intermediary. Transactions are recorded on a public digital ledger which is shared with all other computers connected to the network. Each computer, or “node,” on the network maintains a full copy of the historical ledger and participates in the maintenance of an accurate and secure ledger. Transactions are encrypted and cannot be changed or deleted after a “mining” node has posted a “block” of transactions to the network and the rest of the network has validated the block of transactions.

¹ Additional details can be found on our website at <https://digitalchamber.org/initiatives/>

The first blockchain application was bitcoin the digital currency. What makes the bitcoin digital currency so unique is that it is based entirely on mathematics. In other words, consumers no longer need to rely on a financial institution to settle transactions; the settlement process is integrated into the software network, via complex math verification features, making sending money instant, globally accessible, and extremely cost-effective.

Bitcoin is currently averaging over 300,000 per day². Over 100,000 merchants currently accept bitcoin, including Microsoft, Dell, Overstock, Virgin Galactic, among many others. The Federal Election Commission has also ruled that bitcoin may be received for campaign contributions for federal elections and several Members of Congress are already accepting bitcoin, including Rep. Jared Polis (CO-2), who is the also the Co-Chair of the Congressional Blockchain Caucus.

Overview of the Blockchain Ecosystem

The blockchain industry, while nascent, is rapidly evolving into a diverse and competitive digital economy. With a market capitalization of over \$100 billion³, the blockchain industry has grown over 200 percent each year for the past two years. There are over 660 “cryptocurrencies” (a digital asset that is cryptographically secured, also known as “bitcoin alternatives” or “altcoins”) in circulation today.

Blockchain technology has captured the imagination of technologists, investors, and innovators around the world. Over \$1.5 billion of venture capital has been invested in bitcoin and blockchain companies to date. However, it’s important to note that the industry is not only composed of start-ups. Almost all Fortune 500 companies are exploring blockchain technology today.

² Source: <https://blockchain.info/charts/n-transactions#>

³ Source: <https://coinmarketcap.com>

Overview of the Blockchain Ecosystem



Accounting Issues

There is currently no authoritative literature under accounting principles generally accepted in the United States (U.S. GAAP), which specifically addresses the accounting for digital assets, including digital currencies. Although use and acceptance of digital currencies as a method of payment are not yet widespread, the increasing volume of transactions using digital currencies indicates the current need to develop accounting guidance addressing the recognition, measurement, presentation, and disclosure of digital currencies and related transactions.

Those organizations that currently hold digital currencies analyze current Codification Topics to determine the most appropriate accounting. As there is a lack of clear guidance for these digital currencies, there is currently a diversity of views on the accounting. We have identified four different views that are considered in determining the appropriate accounting methods for digital currencies under current U.S. GAAP:

- Digital currencies should be accounted for under ASC 305, *Cash and Cash Equivalents*.
- Digital currencies should be accounted for as financial instruments under ASC 825, *Financial Instruments*.
- Digital currencies should be accounted for as intangible assets under ASC 350, *Intangibles – Goodwill and Other*.
- Digital currencies should be accounted for as inventory under ASC 330, *Inventory*.

Appendix A below provides an analysis of each view. Digital currencies do not appear to meet the scope of definitions within the Codification Topics for the first two views. Thus, while the recognition and measurement guidance within these Topics may better reflect the nature of digital currencies, application of this guidance does not appear possible. Digital currencies appear to fit within the scope of intangible assets (the third view); however, it is fairly clear that application of the current guidance in ASC 350 does not faithfully represent the economic nature of these digital currencies. Finally, digital currencies may or may not fit within the scope of inventory, depending on an organization's purpose for holding digital currencies and views on physical requirements. Even so, the measurement guidance within this Codification Topic does not appear to be the best reflection of the economics.

We believe a better solution would be to add a project to the standard setting agenda for developing a new sub-topic to address the recognition (and derecognition), measurement (initial and subsequent), presentation and disclosure for digital currencies. Digital currencies are unique and unlike any other asset currently addressed in U.S. GAAP. Developing a new sub-topic would allow the standard setter to provide guidance that best represents the economic characteristics of digital currencies. In addressing the accounting within such a sub-topic for digital currencies, we think that the most faithful representation would be a model under which an organization would recognize the digital currency when it controls the associated economic benefits and measures the digital currency, each period, at fair value with changes in fair value recognized in income.

Summary

Although use and acceptance of digital currencies as a method of payment are not yet widespread, the increasing volume of digital currency transactions necessitates the development of accounting guidance addressing the recognition, measurement, presentation, and disclosure of digital currencies and related transactions. The absence of accounting standards for digital currencies is a mission critical issue for companies seeking to invest and innovate in this exciting technology frontier and may hold back economic growth in the United States. We respectfully request the FASB to consider adding a project addressing the accounting for digital currencies to the FASB's or EITF's standard setting agenda.

We appreciate the FASB's consideration of our request. If you have any questions concerning our request or require further information, please do not hesitate to me.

Yours truly,

A handwritten signature in cursive script that reads "Perianne Boring".

Perianne Boring
Founder and President

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Appendix A – Current analysis of U.S. GAAP for the accounting for holdings of digital currencies

Paragraph 25 of FASB Concepts Statement No. 6, *Elements of Financial Statements* (CON 6), defines assets as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.” Specifically, paragraph 26 of CON 6 states that an asset has three essential characteristics:

- a) It embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash in-flows,
- b) A particular entity can obtain the benefit and control others’ access to it, and
- c) The transaction or other event giving rise to the entity’s right to or control of the benefit has already occurred.

An entity may obtain digital currency through actions including, but not limited to, purchasing it, “mining” it, or receiving it as a form of payment for a past event. The entity would be able to control the digital currency by selling it or using it to purchase goods or services. Therefore, it appears that digital currency meets the definition of an asset. However, there are different views regarding which accounting standard under existing U.S. GAAP to apply when accounting for holdings of digital currency.

View A: Digital currencies should be accounted for under ASC 305, Cash and Cash Equivalents.

The Master Glossary in U.S. GAAP (Master Glossary) defines “cash” and “cash equivalents” as the following:

Cash: Consistent with common usage, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. All charges and credits to those accounts are cash receipts or payments to both the entity owning the account and the bank holding it. For example, a bank's granting of a loan by crediting the proceeds to a customer's demand deposit account is a cash payment by the bank and a cash receipt of the customer when the entry is made.

Cash equivalents: Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

- a) Readily convertible to known amounts of cash
- b) So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. “Original maturity” means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

The Master Glossary’s definition of “cash” includes “currency,” but the Master Glossary does not define “currency.” The Merriam-Webster Dictionary defines “currency” as “something (as coins, treasury notes, and banknotes) that is in circulation as a medium of exchange.” Digital currencies can be used as a medium of exchange, but digital currencies are not issued by a country’s government and do not represent legal tender that must be accepted as a form of payment. Rather, entities or people may choose to accept digital currencies as a form of payment, but they are not required to do so. Although an increasing number of entities are accepting digital currencies as payment, digital currencies are not yet widely accepted as a medium of exchange and do not represent legal tender. Therefore, it does not appear that digital currencies represent cash or cash equivalents that should be accounted for under ASC 305.

View B: Digital currencies should be accounted for as financial instruments under ASC 825, Financial Instruments.

The Master Glossary defines a “financial instrument” as the following, in part:

Cash, evidence of an ownership interest in an entity, or a contract that both:

- a) Imposes on one entity a contractual obligation either:
 - 1) To deliver cash or another financial instrument to a second entity
 - 2) To exchange other financial instruments on potentially unfavorable terms with the second entity.
- b) Conveys to that second entity a contractual right either:
 - 1) To receive cash or another financial instrument from the first entity
 - 2) To exchange other financial instruments on potentially favorable terms with the first entity.

[...]

A digital currency does not appear to meet the definition of a financial instrument because it does not represent cash, an ownership interest in an entity, or a contract establishing a right or obligation to deliver or receive cash or another financial instrument. A digital currency is not a debt security, which the Master Glossary defines as “[a]ny security representing a creditor relationship with an entity.” Likewise, a digital currency is not an equity security (though a

digital asset could be in the form of an equity security) because it does not represent an ownership interest in an entity. Therefore, it does not appear digital currencies should be accounted for as financial instruments.

View C: Digital currencies should be accounted for as intangible assets under ASC 350, Intangibles – Goodwill and Other.

The Master Glossary defines an “intangible asset” as the following:

Assets (not including financial assets) that lack physical substance. (The term “intangible assets” is used to refer to intangible assets other than goodwill.)

The Master Glossary defines “financial assets” as the following:

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

- a) Receive cash or another financial instrument from a second entity
- b) Exchange other financial instruments on potentially favorable terms with the second entity.

Digital currencies are not financial assets and they lack physical substance. Therefore, digital currencies appear to meet the definition of intangible assets.

Applying the guidance in ASC 350 would require entities to record digital currencies at cost. Entities would subsequently measure intangible assets with finite lives by amortizing them over their useful lives and would subsequently measure intangible assets with indefinite lives by testing them for impairment at least annually. Since digital currencies have indefinite lives, applying ASC 350 would require an entity to test digital currencies for impairment at least annually.

Although digital currencies do not appear to meet the definitions of cash or financial instruments, entities may use digital currencies similarly to cash or financial instruments, either as a method of exchange for goods or services or for investment purposes. The value of digital currencies may fluctuate, and using a cost model under ASC 350 would not provide relevant information about the current value of digital currencies. Recognizing an impairment of digital currencies may provide relevant information regarding the value of digital currencies when the value declines, but entities would not record increases in the value of digital currencies. Therefore, although digital currencies appear to meet the definition of intangible assets, accounting for digital currencies under ASC 350 would not provide relevant information about the value of digital currencies for financial statement users.

View D: Digital currencies should be accounted for as inventory under ASC 330, Inventory.

The Master Glossary defines “inventory” as the following, in part:

The aggregate of those items of tangible personal property that have any of the following characteristics:

- a) Held for sale in the ordinary course of business
- b) In process of production for such sale
- c) To be currently consumed in the production of goods or services to be available for sale.

[...]

Entities may use digital currencies as a medium of exchange or for speculative purposes, and for these entities, digital currencies would not represent inventory with the characteristics described above. Although other entities may hold digital currencies for sale in the ordinary course of business similar to commodity brokers, digital currencies do not represent “tangible personal property” as inventory is defined in ASC 330, and therefore, some believe that digital currencies should not be accounted for as inventory under ASC 330.

In addition, if an entity were to account for digital currencies as inventory under ASC 330, the entity would account for digital currencies at the lower of cost and net realizable value. Accounting for digital currencies under such a model would not provide relevant information about the current value of digital currencies.

Appendix B —Criteria for Adding Items to the EITF Agenda

1. Does the issue have widespread relevance?

Yes. The issues raised in this agenda request will impact all financial statement preparers who hold or use digital currencies.

The blockchain industry is a thriving ecosystem with steady, exponential growth. The absence of accounting standards continues to be a mission critical issue for all companies operating in this space. In addition, we believe blockchain technology has the potential to affect all companies across sectors, similar to the commercial implementation of the internet.

For companies operating in the blockchain space, they have no way of accounting for digital currencies on their balance sheet, which is causing serious research and development delays. Public companies simply cannot buy and/hold digital currencies, for it would jeopardize their audit.

Private start-ups that own digital currencies are having significant issues obtaining an audit. In fact, our Digital Assets Accounting Consortium was created because we have a member company that wants to issue an IPO, but because they hold bitcoin, they cannot find an independent auditor that is willing to audit them.

We have also met with US federal government technologists and researchers⁴ that have faced significant drawbacks in their research efforts because they cannot obtain digital currencies, due to their accounting offices do not knowing how to account for them.

The absence of accounting standards for digital currencies is holding back jobs, investment, innovation, and research in the United States. At a time when regulators are opening engaging in arbitrage to attract fintech businesses to their borders, this also could contribute to capital flight and companies moving overseas to more business-friendly jurisdictions.

2. Is there significant diversity in practice?

Yes. Although there are limited public disclosures regarding the accounting for digital currencies, we understand through discussions with financial statement preparers that there is diversity in practice around these questions.

3. Is there conflicting guidance in existing U.S. GAAP?

No. However, there is not specific guidance in U.S. GAAP which clearly addresses the accounting for digital currencies.

⁴ Chamber can provide additional details upon request

4. Is it likely the EITF will be able to resolve the issue in less than one year?

No.

5. Is the issue related to a current FASB project? If so, is there a pressing need to provide related guidance on a timelier basis than that expected from the FASB's activities?

No. The issues described in this letter are unrelated to any current FASB projects.

6. Is it reasonably likely that the FASB would conclude that only one answer is acceptable?

It is highly unlikely that the FASB would conclude there is one acceptable answer based on current authoritative guidance.

7. Is there an opportunity through addressing the issue to converge U.S. practices with international practices?

There is not currently explicit guidance in International Financial Reporting Standards (IFRS). There is an opportunity to develop accounting guidance with the International Accounting Standards Board (IASB).