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NATIONAL SECURITY, INTERNATIONAL
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HOUSE REPUBLICAN STEERING

REPUBLICAN WHIP TEAM

DEPUTY WHIP TEAM

May 12, 2021

Mr. Richard Jones
Chair
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Chair Jones,

As the market capitalization of bitcoin continues to surpass USD \$1 trillion, which is larger than JPMorgan Chase & Co., Citigroup Inc., and Bank of America Corp., combined, it is clear that digital asset holdings are accelerating at a rapid pace. The growth in digital assets on domestic balance sheets is significant and has had and will continue to have a material impact on financial statements. Numerous recent events, such as multiple publicly traded companies acquiring significant amounts of digital assets, have made this clear. We urge you to establish accounting standards that afford companies clear alternatives to determining the accounting treatment for digital assets maintained on their books.

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 Generally Accepted Accounting Principles (GAAP) accounting treatment 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.

U.S. financial regulators are also recognizing the enormous potential of digital 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.¹ This opens opportunities in digital assets not previously available to U.S. banks as well as more avenues for lending to companies that are in the digital asset industry and/or collateralizing credit with digital

¹ OCC, Authority of a National Bank to Provide Cryptocurrency Custody Services for Customers, Interpretive Letter No. 1170 (July 22, 2020), <https://www.occ.gov/topics/charters-and-licensing/interpretations-and-actions/2020/int1170.pdf>.

assets. Those credit opportunities give rise to banking industry needs for better credit analysis on financial statements with digital assets in addition to ultimately encouraging further growth.

In June 2019, the International Financial Reporting Standards (IFRS) Interpretations Committee published an “agenda decision” on how the Committee believes an IFRS reporting entity should apply IFRS standards to digital assets.² Following the public comment period, the Committee’s staff offered some guidance but did not recommend digital asset accounting as a topic for standard setting. Again, the scope of this agenda decision covers primarily entities reporting under IFRS but is not considered “authoritative guidance.”

Recognizing the lack of clarity, in December 2019, the Association of Independent Certified Public Accountants (AICPA) issued a non-authoritative practice aid providing non-authoritative guidance for accounting for digital assets.³ The conclusion of the publication is that digital assets should be accounted for as an intangible asset under ASC 350, but our understanding is that this was largely unsupported by industry practice.

These attempts to provide guidance in digital asset accounting do not reflect industry practice, and lack of thoughtful and carefully developed authoritative guidance from the FASB threatens the ability to create accurate and consistent financial reporting of a large and fast-growing financial asset class.

The growth of digital assets has been staggering and will likely continue to be even more significant. For these reasons, we urge the FASB to provide authoritative accounting guidance for digital assets.

In developing this guidance, we encourage the FASB to update its definition of financial instrument to include digital assets such as virtual currencies. Recognizing that companies hold digital currencies for varying purposes, we believe the FASB should take into consideration how a company intends to use its bitcoin holdings when determining the appropriate accounting method. We have identified four different views that are considered in determining the appropriate accounting methods for digital currencies under current U.S. GAAP:⁴

- 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*.

² IFRS, Holdings of Cryptocurrencies – June 2019 (June 21, 2019), <https://cdn.ifrs.org/-/media/feature/supporting-implementation/agenda-decisions/holdings-of-cryptocurrencies-june-2019.pdf>.

³ AICPA, Accounting for and Auditing of Digital Assets [Practice Aid] (Dec. 16, 2019), <https://www.aicpa.org/interestareas/informationtechnology/resources/blockchain/digital-assets.html>.

⁴ Chamber of Digital Commerce, Letter to FASB, Agenda Request – Determining the Appropriate Recognition, Measurement, Presentation, and Disclosure for Digital Currencies and Related Transactions (June 8, 2017), https://4actl02j1q5u2o7ouq1ymaad-wpengine.netdna-ssl.com/wp-content/uploads/2016/12/Digital-Currency-Agenda-Request_6.7.pdf.

It is important that standards be set to consider the use of the asset and to assure consistency in financial reporting. The impact of digital assets on financial reporting of public and non-publicly traded companies is being felt. Failure to establish sound authoritative guidance in accounting for these assets jeopardizes the integrity of financial reporting. Accordingly, the FASB must promptly address this need for guidance.

Thank you for your attention to this matter.

Sincerely,



Tom Emmer
Member of Congress



Darren Soto
Member of Congress



David Schweikert
Member of Congress



Bill Foster
Member of Congress



Ted Budd
Member of Congress



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