Managed Funds Association
The Voice of the Global Alternative Investment Industry
Washington, D.C. | New York | Brussels | London

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Via Electronic Mail: director@fasb.org

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*; File Reference No. 2023-ED200

Dear Ms. Salo,

Managed Funds Association[1] ("**MFA**") welcomes the opportunity to comment on the Exposure Draft of the proposed Accounting Standards Update (the "**Update**") from the Financial Accounting Standards Board (the "**Board**"), "Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets." MFA members, including traditional hedge funds, credit funds, and crossover funds, help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns over time. MFA members are investors, lenders, creditors, and other allocators of capital (collectively, "**financial statement users**" or "**investors**") for which providing information that is useful in making rational investment, credit, and similar resource allocation decisions is critical with respect to financial reporting.

We commend and support the efforts of the Board to improve the decision-usefulness of the information provided to users of financial statements (generally, investors, lenders, creditors, and other allocators of capital), specifically in relation to financial statement disclosures of crypto assets. We broadly agree that the current accounting—except as provided in generally accepted accounting principles ("**GAAP**") for certain specialized industries—for holdings of crypto assets as indefinite-lived intangible assets, applying a cost-less-impairment accounting model, does not provide financial statement users with decision-useful information. Significantly, measuring crypto assets at fair value would be more reflective of the underlying economics of and an entity's financial position with respect to those assets, and likely reduce cost and complexity with applying the current accounting for holdings of crypto assets.

Our responses to the questions presented in the Exposure Draft are provided in the **APPENDIX** below.

[1] Managed Funds Association ("**MFA**"), based in Washington, D.C., New York, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 170 member firms, including traditional hedge funds, credit funds, and crossover funds, that collectively manage nearly $2.2 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time.

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We appreciate the opportunity to provide comments to the Board on the proposed Update, and we would be pleased to meet with the Board or its staff to discuss our comments. If the Board or its staff has questions or comments, please do not hesitate to contact Joseph Schwartz, Director & Counsel, or the undersigned at (202) 730-2600.

Respectfully submitted,

/s/ Jennifer W. Han

Jennifer W. Han
Executive Vice President
Chief Counsel & Head of Global Regulatory Affairs
Managed Funds Association

cc: Richard R. Jones, Chair, Financial Accounting Standards Board
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APPENDIX: QUESTIONS FOR RESPONDENTS

Scope

Question 1: Are the proposed scope criteria understandable and operable? Please explain why or why not and, if not, what changes you would make.

Question 2: Is the population of crypto assets identified by the proposed scope criteria appropriate? Please explain why or why not.

In response to Questions 1-2 above, we believe that the proposed scope criteria are understandable and operable, and that the population of crypto assets identified by the proposed scope criteria is appropriate.

However, we note that the exclusion of crypto assets that provide the holder with enforceable rights to underlying goods, services, or other assets can lead to the exclusion of some significant assets from the scope of the proposed Update. For example, certain crypto assets represent claims to staked assets, such as tokens that allow holders to participate in a decentralized network's governance or validation process. These tokens are an integral part of the network's operation and value, and their exclusion from the scope could result in significant diversity in practice.

Additionally, some wrapped tokens, which are tokens that represent the value of other assets, such as BTC or ETH, are also excluded from the proposed Update's scope. These tokens are commonly used in decentralized finance ("**DeFi**") applications to provide liquidity and access to a variety of assets, and their exclusion could lead to inconsistencies in financial reporting.

Contrary to the Board's reasoning in paragraph BC17, transactions in wrapped tokens (and, therefore, the need to broaden the scope of the amendments in the proposed Update) are indeed pervasive.[2] Nor would broadening the scope of the amendments in the proposed Update lead to consequences that have not been fully evaluated—wrapped tokens will be valued based on observable inputs from active markets to the same extent as the underlying crypto assets.

The exclusion of such assets will continue to require entities with crypto assets outside the scope of the Exposure Draft to apply judgment to determine the proper accounting treatment for such assets, which could result in varying accounting treatments and a lack of comparability among financial statements. In order to provide financial statement users with useful and comparable information, we believe that it is crucial that the scope of the proposed Update be revised to include all relevant crypto assets to ensure consistent and transparent accounting treatment for all types of crypto assets.

Therefore, we recommend that the Board expand or otherwise modify scope criterion *b.* in 350-60-15-1 to permit the guidance in the proposed Update to apply to holdings of crypto assets that either (i) represent claims to staked assets or (ii) represent the value of other crypto assets. For this purpose, the Board may consider language to the effect that reporting entities may apply the guidance to crypto assets that represent enforceable rights to, claims on, or the value of other underlying crypto assets that would independently meet the scope criteria in 350-60-15-1.

[2] For example, the average daily volume and average market capitalization of Wrapped Bitcoin (WBTC) in April 2023 was roughly $140,945,797 and $4,394,575,068, respectively. *See Wrapped Bitcoin*, COINMARKETCAP, https://coinmarketcap.com/currencies/wrapped-bitcoin/historical-data/ (last visited May 18, 2023).

We believe that such an expansion or modification would not undermine the Board's reasoning in paragraph BC16 that, without scope criterion *b.*, the accounting for certain arrangements—such as contracts with customers, guarantees, and insurance contracts—inadvertently could be included within the scope of the amendments in the proposed Update. We agree that those arrangements, which may be in digital form, should continue to be subject to other GAAP.

Question 3: The amendments in this proposed Update would apply to all entities, including private companies, not-for-profit entities, and employee benefit plans. Do you agree with that proposal? Please explain why or why not.

We support the Board's view that the proposed amendments in the proposed Update should be applicable to all entities, including private companies, not-for-profit entities, and employee benefit plans. The proposed Update would bring much-needed clarity and consistency to the accounting for crypto assets held by reporting entities. We believe that the proposed Update would reduce the complexity in accounting for crypto assets and enhance the usefulness of information provided to users of financial statements.

However, as discussed more fully below, we believe that certain exceptions should apply to entities that follow industry-specific guidance.

<u>**Measurement**</u>

Question 4: The proposed amendments would require that an entity subsequently measure certain crypto assets at fair value in accordance with Topic 820, Fair Value Measurement. Do you agree with that proposed requirement? Please explain why or why not.

Question 5: The Board rejected an alternative that would have prohibited an entity from recognizing an unrealized gain but would still require recognition of losses for a crypto asset measured at fair value in an inactive market and would have required that the entity disclose the current fair value. Would this approach provide more decision-useful information than requiring that an entity recognize those unrealized gains in net income? Please explain why or why not. How would you define an inactive market for this asset class?

Question 6: The proposed amendments would require that transaction costs to acquire crypto assets, such as commissions and other related transaction fees, be expensed as incurred unless an entity capitalizes those costs in accordance with industry-specific guidance (for example, investment companies within the scope of Topic 946, Financial Services—Investment Companies). Do you agree with that proposed requirement? Please explain why or why not.

We support the Board's proposed amendments as they relate to Questions 4-6 above. We believe that the proposed amendments would provide investors with decision-useful information about the value at which crypto assets can be sold and about changes in that value.

We agree with the Board that providing entities with an option, as opposed to a requirement, to measure crypto assets at fair value will not benefit users of financial statements and will diminish comparability between similar entities' reports.

Additionally, we support the Board's view that the proposed amendments related to commissions and other related transaction fees should not be applied to entities which are within scope of industry-specific guidance (for example, investment companies within the scope of Topic 946, Financial Services—Investment Companies).

Presentation

Question 7: The proposed amendments would require that an entity separately present crypto assets from other intangible assets in the balance sheet and, similarly, separately present changes in the fair value of those crypto assets from amortization or impairment of other intangible assets in the income statement. Do you agree with the proposed presentation requirements? Please explain why or why not.

We support the proposed amendments' requirement to present crypto assets measured at fair value separately from intangible assets measured at historical cost less amortization and impairment. We agree with the Board's view that crypto assets should be clearly separated on the balance sheet because they will be measured differently from other intangible assets.

Question 8: The proposed amendments would require that for crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash, an entity would classify the cash received as an operating activity in the statement of cash flows. Do you agree with that proposed requirement? Please explain why or why not.

We support the proposed amendments' requirement to classify cash received from the nearly immediate sale of crypto assets received as noncash consideration in the ordinary course of business, as an operating activity in the statement of cash flows.

We agree with the Board's view that classifying such cash receipts as investing activities when an entity receives crypto assets as a form of consideration for a routine operating activity that is nearly immediately converted to cash would not reflect the economics of the activity and could diminish the financial statements user's ability to assess prospective cash flows.

However, we note that the Board defined the term *nearly immediately* as "within hours or a few days." Given the liquidity and volatility of the crypto asset markets, we believe that the same day of the receipt of the crypto assets is more representative of the term *nearly immediately*. Allowing "a few days" may result in significant gains or losses on the crypto assets which, in our view, would not be accurately reflected as an operating activity.

As an example, suppose that an entity received 1 BTC as noncash consideration for a routine operating activity on 3/15/2023. The Fair Value of the 1 BTC at 4:00PM on 3/15/2023 represented approximately $24,418. If the entity sold the 1 BTC at 4:00PM on 3/19/2023, it would have received approximately $28,331 (16% gain). We believe that classifying the additional 16% gain as cash from an operating activity would not reflect the economics of the activity. Given the complexity related to bifurcation of the additional gain or loss, we believe that the most practical solution would be to reduce the timeframe considered *nearly immediately* to 24 hours (or one day). This timeframe should reduce the impact of subsequent fluctuations between receiving the crypto asset and the time of sale.

Disclosure

Question 9: The proposed amendments would require that an entity disclose the cost basis of crypto assets separately for each significant crypto asset holding. The Board decided not to provide specific guidance on how an entity should determine the cost basis of its crypto assets, including its determination of the basis used to calculate and disclose realized gains and losses. Do you agree with this aspect of that proposed requirement? Please explain why or why not.

We support the proposed amendments' requirement that an entity disclose the cost basis of crypto assets separately for each significant crypto asset holding. We believe that such disclosure would provide more transparency about an entity's individual holdings and their related risks. Additionally, we support the Board's view that entities should use appropriate judgment to determine their significant holdings and agree that a bright line may be neither suitable nor sufficient in reflecting an entity's risks associated with various crypto assets.

However, investment companies within the scope of Topic 946, Financial Services—Investment Companies, already have specific requirements for financial reporting and disclosures, including the additional requirements to present a Schedule of Investments (as codified in 946-210-50), which provide a high level of transparency on all material positions held by the entity, including cost basis. Therefore, we recommend that exceptions be made for entities following industry-specific guidance where there is already adequate transparency for the material positions held.

Question 10: Are the proposed disclosure requirements operable in terms of systems, internal controls, or other similar considerations related to the required information? Please explain why or why not.

Question 11: Should additional disclosures, such as those described in paragraph BC60 in the basis for conclusions, be required? If so, what additional information should be disclosed? How would that information influence investment and capital allocation decisions?

In response to Questions 10-11 above, we believe that the proposed amendments in the proposed Update are operable for most entities. After careful consideration, we agree with the Board regarding disclosures considered and rejected, as described in paragraph BC60, with no additional information required. We believe that such disclosures generally will provide information that could be found in other disclosures or, in other cases, will provide information that could be too detailed and not currently required for similar assets.

Question 12: The proposed amendments would require that an entity annually disclose a reconciliation of the opening and closing balances of crypto assets, which would include additions, dispositions, gains, and losses during the reporting period. Would this proposed disclosure provide decision-useful information? Please explain how and for what purpose that information would be used or why it would not be useful. Should that information also be required on an interim basis? Please explain your response.

Regarding the proposed annual reconciliation of opening and closing balances of crypto assets, we do not believe that this disclosure will provide decision-useful information to users of financial statements. The addition of the proposed disclosure in 350-60-50-1 already requires reporting entities to disclose their cost basis and fair value of crypto assets. Adding a separate reconciliation from opening to closing balances will provide limited new information about the entity's holdings. Therefore, we believe that the roll-forward reconciliation proposed in 350-60-50-3 may not be useful to financial statement users as it does not provide significant additional information beyond what is already required.

We note that Topic 820, Fair Value Measurement, currently requires a similar reconciliation for Level 3 assets measured at fair value. This disclosure requirement was added in response to users indicating that movement due to purchases and sales in assets measured at fair value using unobservable inputs (Level 3) will provide useful information. However, we expect that the majority of crypto assets within the scope of the proposed amendments will be valued based on observable inputs from active markets, not unobservable inputs. Thus, adding such a roll-forward reconciliation will provide minimal decision-useful information, akin to providing a roll-forward to Level 1 assets.

In our view, if the Board determines that a roll-forward reconciliation provides relevant information, only crypto assets measured at fair value using unobservable prices should be included in such reconciliation for consistency purposes. This approach would avoid adding cumbersome details to the disclosure. As for whether this information should also be required on an interim basis, we believe it would depend on the frequency of the reporting period and the materiality of the changes to the balances of crypto assets during the period.

Implementation Guidance and Illustrations

Question 13: The Board concluded that Topic 820 and Topic 850, Related Party Disclosures, provide sufficient guidance for an entity to measure the fair value of crypto assets and evaluate and disclose related party transactions that involve crypto assets. Is that guidance operable and sufficient as it relates to crypto assets? Please explain why or why not.

We agree with the Board's view that entities should measure the fair value of crypto assets and evaluate and disclose related party transactions that involve crypto assets in accordance with Topic 820, Fair Value Measurement, and Topic 850, Related Party Disclosures.

We believe that leveraging existing guidance, when appropriate, will generally reduce implementation complexities. As both Topic 820, Fair Value Measurement, and Topic 850, Related Party Disclosures, are well understood in practice, and are familiar to many investors, we support the Board's conclusion that the existing guidance is sufficient.

Transition and Effective Date

Question 14: The proposed amendments would require that an entity apply the amendments as of the beginning of the fiscal year of adoption through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets). Do you agree with the proposed transition guidance? Please explain why or why not.

We agree with the Board's proposal to apply the amendments as of the beginning of the fiscal year of adoption through a cumulative-effect adjustment to the opening balance of retained earnings, which comports with the requirements of Topic 250, Accounting Changes and Error Corrections.

Question 15: How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your response.

We believe that the amendments for the proposed Update should be effective for periods beginning after December 31, 2023 (Fiscal Year 2024) for all entities, with early adoption permitted.

Benefits

Question 16: Would the proposed requirement to subsequently measure crypto assets at fair value and the accompanying disclosures benefit investors by providing them with more decision-useful information? If so, how would that information influence investment and capital allocation decisions? If not, please explain why.

We support the proposal to require fair value measurement and agree that it would provide investors with more decision-useful information about the value at which crypto assets can be sold and about changes in their fair value. We believe that the predominant way by which an entity realizes value from crypto assets is through the exchange of the crypto assets for cash or other crypto assets. Accordingly, the proposed requirement to subsequently measure crypto assets at fair value will provide financial statement users with the most relevant information related to the crypto assets held by the reporting entity.

Costs and Auditability

Question 17: To the extent not previously discussed in response to the proposed amendments above, what effect would the proposed amendments have on costs? If those proposed amendments are expected to impose significant incremental costs, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs. If those proposed amendments are expected to reduce costs, please explain why.

Given that the proposed amendments primarily relate to the accounting treatment of assets that are traded on-chain, we do not believe that there should be significant incremental costs associated with their implementation. Entities already have access to information about their crypto assets through the blockchain, which should make it relatively easy for them to comply with the proposed disclosure requirements.

Notwithstanding, there may be one-time costs associated with implementing new accounting policies and procedures related to the treatment of crypto assets, such as training staff or engaging third-party service providers. However, we believe that the benefits of increased transparency and consistency in accounting treatment outweigh any potential costs. Clear and consistent accounting treatment of crypto assets should reduce the need for users to conduct their own analysis and interpretation of financial statements, ultimately saving valuable time and resources.

Question 18: Would the financial reporting and disclosure requirements included in the proposed amendments be auditable? Please explain why or why not.

We believe that the amendments in the proposed Update are generally auditable. In our view, to a certain extent, the disclosure requirements should already be observable on the blockchain and, as such, should be auditable. Since blockchain technology is based on a distributed ledger system, all transactions and data are recorded and available for audit purposes. Therefore, any on-chain financial reporting and disclosure requirements included in the proposed amendments would be easily auditable. We also note that auditors may need to adopt specific procedures to ensure the completeness and accuracy of the information provided in the blockchain. Nonetheless, with the appropriate tools and expertise, auditors should be able to validate the financial information reported on the blockchain.