



1710 Gilbreth Road
Burlingame, CA 94010
(800) 922-5272
calcpa.org
calcpa@calcpa.org

May 30, 2019

Technical Director
Director@fasb.org

Re: Technical Inquiry Request

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 42,600 members. The Committee consists of 54 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

Our Committee continues to identify clients in the technology and not-for-profit industries that have elected to accept and/or hold cryptocurrency. Questions regarding the accounting for, and disclosure of, cryptocurrency have ensued. Given the absence of specific, authoritative, US GAAP, the Committee is requesting that the Financial Accounting Standards Board consider adding a project to the Board's or Emerging Issues Task Force's technical agenda to address the accounting for, and disclosure of cryptocurrencies.

In early January 2018, the Committee became aware of a not-for-profit that received and elected to hold a substantial donation of bitcoin. Upon review of the accounting practices at the time, diversity in practice was evident. For example, our research revealed that some entities accounted for cryptocurrency using a "lower of cost or market" approach while others utilized a "fair value approach". Other examples identified cryptocurrencies reported as intangible assets, valued at historical cost less impairment.

Since that time, several large public accounting firms have published accounting interpretations regarding cryptocurrency. This interpretive guidance has generally aligned cryptocurrency with indefinite-lived intangible assets, asserting that ASC 350 (i.e., historical cost less impairment) is the appropriate accounting. Other practitioners, however, express concern whether this approach best reflects the nature and risks in holding these assets. For example, to the extent that an entity intends to hold cryptocurrency assets for a short time, the classification as an indefinite lived intangible would not be appropriate at least as it relates to the asset's potential to contribute to the holding entity's cash flows.

The Committee is also aware of international efforts to address the accounting for cryptocurrencies (e.g., March 2019 IFRIC Meeting - Holdings of Cryptocurrencies—Agenda Paper 4). The IFRS Interpretations Committee tentatively concluded that "IAS 2 Inventories applies to

cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies.” While agreeing with the interpretive guidance, the Accounting Standards Board of Japan (“ASBJ”) requested that amendments to IFRS Standards be made as a result of “inappropriate outcomes which do not provide the most relevant information.” The ASBJ further recommended that cryptocurrencies with an active market be measured at fair value. We understand the ASBJ has adopted a model that is substantially based on fair value for cryptocurrencies in Japan’s GAAP.

The Committee believes the accounting for cryptocurrencies is not adequately captured under existing US GAAP. The Committee believes that the accounting model for cryptocurrency that has an active market, and is held by an entity as a medium of exchange or investment, should be generally aligned with that for a foreign currency. This is because many of the characteristics and risks of cryptocurrencies are similar to those of foreign currency. The Committee also observes that the formal differences tend to be practically mitigated in today’s world. For example, while no government backs cryptocurrencies, the “gold standard” is long gone, and governments only influence, but do not really back, their own respective currencies. Instances of massive currency devaluation are not infrequent and well known. And while bitcoin is not legal tender in the US, neither is Canadian dollar, or any other foreign currency.

The Committee recognizes that authoritative US GAAP is established by the FASB. Our Committee was pleased to note the October 9, 2018 discussion at its PCC Meeting regarding the indicated need to meet with preparers that hold and trade cryptocurrency. It is unclear whether the FASB intends to initiate a project responsive to the accounting for cryptocurrencies. We believe the usage of cryptocurrencies will not diminish over time, and will continue to expand in both volume and new fields of application. We anticipate it will not be long before major public companies start using cryptocurrencies, as illustrated by JP Morgan’s decision to issue JPM Coin in February 2019. Given the existing and the anticipated future use of cryptocurrency, the Committee requests that the FASB add a project to the Board’s or Emerging Issues Task Force’s technical agenda to address the appropriate accounting for such assets.

We thank you for your consideration of this request. We would also be glad to discuss our experiences with you further should you have any questions or require additional information.

Sincerely,



Nancy A. Rix, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants