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May 22, 2023

Ms. Hillary Salo
Technical Director
File Reference No. 2023-ED200
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference No. 2023-ED200

Dear Ms. Salo,

MicroStrategy Incorporated ("we" or "the Company") appreciates the Financial Accounting Standards Board's ("FASB") openness and dedication to ensuring U.S. generally accepted accounting principles keep pace with technological and financial developments, including the evolving role of crypto assets in the broader global financial system. Specifically, we appreciate the rigorous process the FASB is undertaking to review the Proposed Accounting Standards Update, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets* ("ASU 350-60"), and we welcome the opportunity to provide our comments and feedback on the ASU 350-60 exposure draft as set forth below.

We fully support the approach the FASB has proposed for the accounting and disclosure of certain crypto assets, such as bitcoin, of which we hold a material amount. We are the largest public company holder of bitcoin; as of March 31, 2023, we held approximately 140,000 bitcoins, purchased at an original cost basis of $4.172 billion and carried on our consolidated balance sheet at $2.000 billion, after recording cumulative impairment charges of $2.172 billion under the current indefinite-lived intangible asset accounting model. In comparison, the market value of our bitcoin holdings as of March 31, 2023 (based on the market price of one bitcoin on the Coinbase exchange, our principal market for bitcoin, at 4:00pm Eastern time) was $3.986 billion – nearly twice the amount at which we carried our bitcoin on our consolidated balance sheet. Reporting crypto asset holdings under a fair value model, as proposed by the FASB, would enable us to provide investors with a more relevant view of our financial position and the economic value of our bitcoin holdings, which in turn would facilitate the ability of investors to make informed investment and capital allocation decisions.

We respectfully submit herein our responses to the FASB's questions for respondents, as keyed to the numbering of the questions and headings used in the ASU 350-60 exposure draft.

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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.

Yes, the proposed scope criteria outlined in proposed ASU 350-60-15-1 are understandable and operable to those familiar with the crypto ecosystem. However, for the avoidance of any doubt, the FASB may wish to consider expanding the Master Glossary for crypto-specific references such as "distributed ledger".

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

Yes. We acknowledge and agree with the FASB's intent to make the scope criteria purposefully narrow in this initial proposal despite the continuously expanding range of crypto assets. There may be various complexities associated with non-fungible or wrapped tokens, etc., and prolonging the standard setting process to address the treatment of other digital assets, which are not as widely held, would delay the introduction of much needed accounting standards for entities that hold the most widely held digital assets for a comparatively small benefit. In addition, we agree that the proposed guidance should not be applicable to creators of crypto assets as such parties could artificially inflate their balance sheet and record non-substantive gains on their income statement simply by creating their own crypto assets. We note and agree with the FASB's clarification in its Basis for Conclusions that a miner is not considered a creator of crypto assets. We also agree with the criteria limiting the population of in-scope crypto assets to those that do not provide enforceable rights to, or claims on, underlying goods, services, or other assets (e.g., as at least most non-fungible tokens do), so that the potential impact on other relevant GAAP accounting, particularly accounting for contracts with customers under Topic 606, Revenue From Contracts with Customers, and Topic 815, Derivatives and Hedging, can be more carefully considered in the future, if needed.

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.

Yes. In general, we believe having the proposed amendments apply to all entities is beneficial for uniformity and comparability of financial reporting. Based on our experience with accounting for our substantial bitcoin holdings since 2020, we also believe fair value accounting would be more easily applied and less costly to implement and maintain for private companies, not-for-profit entities, and employee benefit plans than the current historical cost-less-impairment accounting model. With respect to employee benefit plans, we also note investments are generally reported at fair value and fair value provides the most useful information to individual participants of employee benefit plans.

Measurement

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.*

Yes, we agree with the proposed requirement to subsequently measure certain crypto assets at fair value in accordance with Topic 820, Fair Value Measurement. Measurement at fair value would provide a more relevant view of the entity's financial position by reporting the value that would be expected to be received upon sale of such assets as of the end of the reporting period and also would reflect the actual changes in fair value of such assets during the applicable reporting period in the entity's income statement. Furthermore, fair value measurement of crypto assets under GAAP would better align financial reporting and tax reporting. Currently, additional effort is required for tax reporting to track losses based on both the lowest price of a crypto asset and the period end price to properly compute the deferred tax asset associated with the crypto asset holdings and the related valuation allowance, respectively. Under a fair value model, both the deferred tax asset and its associated valuation allowance would be measured using the period end price of the crypto asset only. In addition, fair value accounting would result in deferred tax liabilities in periods where unrealized gains are recorded, which again would more fairly represent the true economic impact of changes in fair value of crypto assets.

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?

We do not believe that the rejected approach would provide more decision-useful information than requiring that an entity recognize unrealized gains in net income. Under the rejected approach, entities would still be required to determine the fair value of their crypto assets in order to assess for and recognize losses, and to disclose the current fair value. By recognizing unrealized losses and not recognizing unrealized gains, the underlying economic reality of changes in fair value would not be appropriately reflected in the financial statements. Given the limited scope of this proposal, we do not believe it is necessary to separately define and provide alternative guidance for inactive markets for crypto assets, but rather Topic 820 should be applied.

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.

Yes, we agree with the proposed requirement to expense transaction costs to acquire crypto assets as incurred. By excluding such transaction costs (such as commissions and other related transaction

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fees) from the cost basis and carrying value of the assets, the changes in fair value reported as gains and losses in the income statement would better represent the actual changes in market value of the crypto asset holdings. If such transaction costs were capitalized, then the fair value gains and losses reported in the income statement would inherently include the impact of transaction costs incurred during the period, and the amount of realized gains or losses from dispositions would also include the impact of the transaction costs of the disposed assets. Expensing transaction costs as incurred provides for simpler record keeping and reporting, as transaction costs would not need to be associated and tracked as part of the cost basis of specific assets after being incurred. Such costs would be reported separately on the income statement, so there would be no loss in transparency. This approach would help avoid distortions that might arise from commingling transaction costs with fair value gains and losses.

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.

Yes. Separately presenting crypto assets (and related gains and losses arising from changes in fair value) from other intangible assets (and related expenses arising from amortization or impairment) is appropriate, since the underlying economics of crypto assets and other intangible assets and their respective financial statement measurement requirements are different. Separate presentation would allow for greater transparency and usefulness of the financial statements. With respect to presenting fair value changes in the income statement, we note there is no explicit guidance on the presentation of such gains and losses (i.e., operating versus nonoperating) and believe clarification on this topic would be helpful to include in the final update.

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.

Yes. We appreciate that the FASB clarified the term “nearly immediately” to refer to “a short period of time that is expected to be within hours or a few days, rather than weeks.” We believe the proposed amendments are intended to provide guidance for entities that are not holding or transacting in crypto assets in substance, for example if the assets are liquidated “nearly immediately” after being accepted as consideration in a transaction in the ordinary course of business. We agree with the FASB that reporting such activities as investing activities would be inappropriate, as such cash inflows are representative of normal operating activities.

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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.

Yes, we agree with the proposed requirement to disclose the cost basis for each significant crypto asset holding, as such disclosure would provide the most transparency to investors, especially if an entity's portfolio of crypto assets is particularly diverse. Although the Board has not provided specific guidance on how the cost basis of crypto assets should be determined, it has provided specific guidance on transaction costs (requiring immediate expensing, as noted in the proposed ASC 350-60-30-1). Otherwise, there is sufficient guidance in other sections of the Codification and historical practices that entities can draw upon to ensure their determination of the cost basis of crypto assets is appropriate for their industry group. By clarifying the treatment of transaction costs, determination of cost basis should otherwise be relatively straightforward. We also agree with the Board's decision to be silent on the determination of cost basis used to disclose realized gains and losses. Like the accounting for inventory, various methodologies ("first-in, first-out", specific identification, etc.) should be allowable as long as entities disclose the methodology utilized (as would be required in the proposed ASC 350-60-50-2) and apply it consistently.

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.

Yes, since the third quarter of 2021 (in response to a comment letter from the Securities and Exchange Commission dated October 7, 2021) we have been consistently disclosing information related to our bitcoin holdings that is similar to the requirements under the proposed accounting standard and have established appropriate system reporting and internal controls necessary to capture such information readily. We have also disclosed our encumbered bitcoin and nature of restrictions in our periodic filings. The effort to establish such reporting and internal controls was not overly burdensome and these processes are consistent with processes we had established for other reporting purposes. We believe the proposed disclosure requirements are reasonable and entities with crypto asset holdings are already tracking, and in many cases disclosing, many of these items, or otherwise can easily implement processes to comply with the disclosure requirements. We do not expect any difficulties in satisfying the disclosure requirements outlined in proposed ASC 350-60-50-1 through 6 in our future filings.

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?

No, we believe that the disclosure requirements outlined in the ASU 350-60 exposure draft would provide an ordinary investor with sufficient information to assess the financial health of an entity that holds crypto assets. Additionally, we believe requiring the additional disclosures as described in paragraph BC60 (such as the nature and purpose of holding crypto assets) may become less relevant in the future if crypto assets continue to gain wider adoption and become a more mainstream treasury reserve asset option. We also do not believe that disclosure of information relating to cryptographic private keys is necessary for purposes of assessing the financial health of an entity that holds crypto assets. We further note that, although we regularly provide in our filings with the Securities and Exchange Commission more detailed information about the source of funds used to acquire bitcoin, we do not believe such disclosure should be mandated. Entities can choose to provide such information if they determine it to be material to investors.

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.

Yes. As noted in our response to Question 10, we have been providing a similar reconciliation in our interim and annual filings with the Securities and Exchange Commission since the third quarter of 2021. Our inclusion of this reconciliation table was in response to a comment letter from the Securities and Exchange Commission, and we agree that doing so provides useful decision-making information to investors and a transparent view of our capital allocation strategy, including the timing of our purchases and dispositions of crypto assets, and how they correspond to the fair value of such assets at specific points in time. Such a reconciliation allows investors to see how an entity is managing this type of asset. Although we have provided a reconciliation in both interim and annual filings (and expect to continue to do so given our material bitcoin holdings), we believe annual disclosure is sufficient for most entities unless there are material changes in interim periods. However, it would be helpful if the reconciliation periods described under the proposed paragraph 350-60-50-3 could be further clarified. For example, is the reconciliation intended to cover each period for which an income statement is presented, or does the "opening" crypto assets balance refer to the balance as of the earliest balance sheet date presented?

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.

Yes, we believe that Topic 820, Fair Value Measurement, and Topic 850, Related Party Disclosures, provide generally sufficient guidance to be operable when applied to crypto assets. We have already been utilizing Topic 820 under the existing historical cost-less-impairment accounting model to assess our bitcoin holdings for impairment and have been able to apply the existing concepts of

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“principal market” and “fair value hierarchy” without significant difficulties. However, we acknowledge that there are various markets in which crypto assets trade and entities may utilize a variety of these sources to transact at any time. Specific implementation examples for identifying the principal market for various crypto asset scenarios may be useful for entities to reference as they apply the guidance under Topic 820. We also believe the guidance in Topic 850 for related party disclosures, specifically the existing Master Glossary definition of “related party” and intersections with fair value determination under Topic 820, are sufficient with respect to application of the proposed accounting standard.

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.

Yes, we agree with the proposed transition requirement to record a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period in which an entity adopts the proposed amendments. Although a full retrospective application would provide a clearer historical trend, it would be burdensome to apply and offer limited benefit to investors who are more interested in the fair value as of the current reporting period-end. We believe a cumulative-effect adjustment to retained earnings as of the beginning of the annual reporting period is an effective means to reduce the implementation effort, especially for public companies, and simultaneously ensures that only the current annual period’s fair value changes are reflected in the income statement for the year. If prospective application were to be allowed, the impact on the income statement would not be an accurate reflection of changes in fair value during the reporting period in the initial year of adoption.

We noted that, per paragraph BC62 of the Basis for Conclusions to the proposed ASU 350-60, the cumulative-effect adjustment should include the direct effects of such adjustment (including tax consequences). It would be helpful to include similar guidance directly within the transition paragraphs of the proposed Subtopic.

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 ASU 350-60, as proposed, can be implemented without significant additional burden since entities that hold crypto assets have already had to track fair value for impairment purposes under the current historical cost-less-impairment accounting model. In our case, all information required to be disclosed is readily available through our books and records and we believe any changes to our control framework would be minimal given our existing internal controls with respect to our bitcoin holdings. We believe early adoption should be permitted so that those entities that are well-positioned to implement these new standards can begin to provide the most relevant and useful

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information to their investors as soon as practicable. If early adoption is permitted by the Board and entities select to early-adopt prior to the end of the current fiscal year, entities would benefit from clarification on the extent to which interim reports filed earlier in the same fiscal year would need to be amended or supplemented with additional disclosure, if at all.

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.

Yes. Fair value is a more useful and balanced accounting model for investors than the current model, whereby only decreases in fair value are recognized, and subsequent increases are not. While the current model offers a distorted picture of an entity's crypto asset holdings that may confuse investors unfamiliar with the accounting standard it reflects, fair value accounting provides investors with the ability to make clear "return on investment" calculations, thereby providing the basis for economic reality-driven investment decisions. An investor reviewing an entity's income statements under the current model might assume the entity's crypto asset holdings have lost value in aggregate even if the fair value of such assets actually increased during the applicable period. With fair value accounting, both increases and decreases in fair value are recognized in the income statement, and an investor reviewing an entity's income statements would have a much more accurate sense of how the fair value of its crypto assets has changed. Similarly, the accompanying disclosures would provide valuable insight into the entity's capital allocation strategy by providing investors with a view of its periodic additions and dispositions.

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.

Because of our significant bitcoin holdings and the length of time over which we have held bitcoin, we have already developed an internal control framework for tracking and reporting crypto assets under the historical-cost-less-impairment accounting model and we expect minimal impact to our internal controls from adoption of the proposed Update. For purposes of management reporting, we also already track and supplementally report certain fair value metrics associated with our bitcoin and have already determined our principal market under Topic 820. Accordingly, we do not believe that the costs to implement the proposed ASU 350-60 would be significantly more than the costs associated with the current accounting model. There will likely be some incremental costs associated with the implementation of a fair value accounting and reporting model (e.g., one-time third-party auditing fees associated with the change in accounting during the initial year of adoption and more

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moderate recurring fees for confirmations and other fair value audit procedures, etc.). However, we believe that the adoption of a fair value accounting and disclosure method would significantly reduce the time and resources necessary to prepare and disclose impairments, while reducing the risk of financial statement and disclosure errors associated with the historical-cost-less-impairment accounting model.

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 there would not be any significant difficulties in auditing the various financial reporting and disclosure requirements included in the proposal.

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We have appreciated the opportunity to comment on this exposure draft and are available for future dialogue should the FASB request any additional information or make further requests for public comment.

Respectfully,

/s/Andrew Kang

Andrew Kang
Senior Executive Vice President & Chief Financial Officer
MicroStrategy Incorporated