

BITCOIN ACCOUNTING TREATMENT AND TAX CONSIDERATIONS

As of February 3, 2021

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Background and Purpose

Executive Summary and Accounting Considerations

Upon consideration of the questions listed below, the Company has concluded that its Investment in bitcoin is to be accounted for as an asset of the Company and accounted for based on the guidance within FASB ASC 350 *Intangibles – Goodwill and Other*. The Company will record impairment losses as the fair value falls below the carrying value of the Investment, and such impairment losses are not able to be reversed upon a subsequent increase in fair value. Upon sale of the Investment, the Company will record a sale pursuant to FASB ASC 610 *Other Income* and record any gain or loss on sale based on the fair value at the date of sale. The remainder of this memo outlines the accounting considerations to support these conclusions.

Summary of Questions/Topics to Consider:

- *Question 1: Does the Company have control of the Investment and therefore recognize the Investment as assets on the Company's balance sheet?*
- *Question 2: How should the Investment be classified and initially measured on the Company's balance sheet?*
- *Question 3: How should the Investment be subsequently measured?*
- *Question 4: What is the appropriate unit of account to use in measuring impairment?*
- *Question 5: How should the Company account for sales of the Investment?*
- *Question 6: What accounting disclosures are required to be included in its financial statements related to the Investment?*
- *Question 7: What are the tax accounting implications of the investment?*

Question 1: Does the Company have control of the Investment and therefore recognize the Investment as assets on the Company's balance sheet?

There is no authoritative GAAP on point that addresses whether a digital asset is an asset of a Company or a third-party hosted wallet provider. In evaluating whether the Investment is an asset of the Company, the Company considered whether it meets the definition of an asset in FASB Concepts Statement No. 6, Elements of Financial Statements ("CON 6"). Although the FASB Concepts Statements are not considered authoritative US GAAP, it defines the characteristics of an asset which are helpful to consider in evaluating whether the Investment is an asset of the Company. CON 6 defines and describes the characteristics of assets in paragraphs 25 and 26, which state in part (emphasis in bold, analysis in italics):

25. Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

Characteristics of Assets

26. 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 inflows, (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. Assets commonly have other features that help identify them—for example, assets may be acquired at a cost and they may be tangible, exchangeable, or legally enforceable. However, those features are not essential characteristics of assets. Their absence, by itself, is not sufficient to preclude an item's qualifying as an asset. That is, assets may be acquired without cost, they may be intangible, and although not exchangeable they may be usable by the entity in producing or distributing other goods or services. Similarly, although the ability of an entity to obtain benefit from an asset and to control others' access to it generally rests on a foundation of legal rights, legal enforceability of a claim to the benefit is not a prerequisite for a benefit to qualify as an asset if the entity has the ability to obtain and control the benefit in other ways.

In addition to CON 6, the Company considered additional non-authoritative guidance issued by the American Institute of Certified Public Accountants ("AICPA"), which has formed a Digital Assets Working Group ("DAWG") to address accounting considerations related to digital assets given the lack of authoritative GAAP. The AICPA's Practice Aid: *Accounting for and Auditing of Digital Assets* ("AICPA Guide") includes questions and answers on the accounting for digital asset transactions. Question 10 of the AICPA Guide states the following (analysis included in italics):

Question 10:

When an entity (the depositor) holds its digital asset in a third-party hosted wallet service (the custodian), should the digital asset be recognized on the financial statements of the depositor or the custodian?

Response 10:

It depends. The digital asset should be recognized on the financial statements of the entity that has control over the digital asset. Determining which entity — the depositor or the custodian — has control of the digital asset should be based on the specific facts and circumstances of the agreement between the depositor and custodian and applicable laws and regulations. In that regard, a legal analysis may be needed to evaluate certain aspects of the agreement, including legal ownership.

The form of the agreement between the depositor and the custodian may vary but often will be included within the terms and conditions or initial account-opening documents provided by the custodian.

In addition to assessing the terms of the agreement, an analysis of the characteristics of an asset as defined by FASB Concepts Statement No. 6, Elements of Financial Statements (see above for analysis), may help determine which party should recognize the digital asset. Some factors an entity may consider include the following:

- Are there legal or regulatory frameworks applicable to the custodian and the depositor (which may also depend on the jurisdiction)? If so, does the framework specify who the legal owner of the digital asset is?

- Do the terms of the arrangement between the depositor and custodian indicate whether the depositor will pass title, interest, or legal ownership of the digital asset to the custodian?
- When the depositor transfers its digital assets out of the custodian's wallet, is the custodian required to transfer the depositor's original units of the digital asset deposited with the custodian?
- Does the custodian have the right (under contract terms, law, or regulation) to sell, transfer, loan, encumber, or pledge the deposited digital asset for its own purposes without depositor consent or notice, or both?
- Would the digital asset deposited with the custodian be isolated from the custodian's creditors in the event of bankruptcy, liquidation, or dissolution of the custodian? If not, do the depositors have a preferential claim in such circumstances?
- Can the depositor withdraw the deposited digital asset at any time and for any reason? If not, what contingencies are associated with the rights to receive the deposited digital asset? Are there technological or other factors that would prevent timely withdrawal notwithstanding contractual, legal, or regulatory rights?
- Are there side agreements affecting rights and obligations of the depositor and the custodian?
- Are there "off-chain" transactions recorded outside of the underlying blockchain that should be considered?
- Is the digital asset held in a multisignature wallet, and if so, what are the signatures that are required to execute a transaction? Who holds the private keys to the multisignature wallet and how is ownership evidenced through any applicable account agreements?
- Is the custodian required (by contract, law, or regulation) to segregate the digital assets of depositors from the digital assets owned for the custodian's own account? Does the custodian commingle digital assets of multiple depositors?
- Does the depositor bear the risk of loss if the deposited digital asset is not retrievable by the custodian (for example, due to security breach, hack, theft, or fraud)?
- Could the depositor be impeded by the custodian in any way from receiving all economic benefits of controlling the digital asset, including price appreciation?

The previous list is not exhaustive, and there is no single factor that is considered determinative to the control of the digital asset held through a custodian's digital wallet. Each arrangement should be assessed separately.

If it is determined that the depositor has control over the digital asset, then the depositor should recognize the digital asset in its financial statements.

Question 2: How should the Investment be classified and initially measured on the Company's balance sheet?

Since there is not authoritative US GAAP that directly addresses the accounting for an investment in a digital asset, the Company considered other interpretive guidance issued by KPMG LLP in its Defining Issues 18-13 ("DI 18-13"), *Blockchain and digital currencies challenge traditional accounting and reporting models*, and Deloitte in its Financial Reporting Alert 18-9: *Classification of Cryptocurrency Holdings* ("Alert 18-9"). It states the following, in part:

KPMG LLP: Accounting for digital assets (DI 18-13)

Cryptocurrencies and digital tokens challenge traditional financial reporting boundaries. The accounting for digital assets is an emerging area, and so far neither the FASB nor the IASB have provided specific accounting guidance. As the technology continues to evolve, it may not be clear how to apply accounting requirements to these transactions.

Bitcoin and other cryptocurrencies

Cryptocurrencies like bitcoin may exhibit certain characteristics of assets covered by different accounting codification topics. For example, some have suggested that bitcoin is akin to traditional currencies like those backed by sovereign governments. Others view bitcoin as a commodity, such as 'digital gold.'

However, we believe that cryptocurrencies would generally meet the definition of an indefinite-lived **intangible asset** because they do not convey specific rights in the same way as financial instruments. Indefinite-lived intangible assets are not amortized, but are required to be recognized and measured at their historical cost; impairment is recognized when their carrying amount exceeds fair value. The subsequent reversal of previously recognized impairment losses is prohibited.

While many believe cryptocurrencies like bitcoin would be better measured at fair value each period, outside of a few specific circumstances (i.e. cryptocurrency held as an investment by an investment company), US GAAP does not permit fair value accounting for an intangible asset.

Deloitte: Accounting for Cryptocurrencies (Alert 18-9)

The guidance in U.S. GAAP does not currently directly address the accounting for cryptocurrencies. For the reasons explained below, we believe that cryptocurrencies should generally be accounted for as indefinite-lived intangible assets under ASC 350...

The ASC master glossary defines intangible assets as "[a]ssets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)" Cryptocurrencies are not financial assets because they are not cash, an ownership interest in an entity, or a contract establishing a right or obligation to deliver or receive cash or another financial instrument. Since they lack physical substance, they are generally considered intangible assets.

ASC 350 requires entities to initially record intangible assets at cost (e.g., consideration transferred). As intangible assets, cryptocurrencies have indefinite lives and therefore must be tested for impairment at least annually and more frequently if events or changes in circumstances indicate that it is more likely than not that they are impaired. A decline below cost in a quoted price on an exchange may be an event indicating that it is more likely than not that a cryptocurrency is impaired.

Consistent with DI 18-13 and Alert 18-9, the Investment should be classified as an indefinite-lived intangible asset in accordance with ASC 350 and initially measured at cost. The guidance in DI 18-13 and Alert 18-9 is consistent with the nonauthoritative guidance in the AICPA Guide. Specifically, Question 1 within the AICPA Guide states the following:

Question 1:

How should an entity that does not apply specialized industry guidance (for example, it is not applying FASB Accounting Standards Codification [ASC] 946, *Financial Services — Investment Companies*) account for purchases of crypto assets for cash?

For purposes of this Q&A, the term crypto asset is specific to the type of digital assets that

- a) function as a medium of exchange, and
- b) have all the following characteristics:
 - a. They are not issued by a jurisdictional authority (for example, a sovereign government).
 - b. They do not give rise to a contract between the holder and another party.
 - c. They are not considered a security under the Securities Act of 1933 or the Securities Exchange Act of 1934.

These characteristics are not all-inclusive, and other facts and circumstances may need to be considered.

Examples of crypto assets meeting these characteristics include bitcoin, bitcoin cash and ether.

Response 1:

The FASB ASC Master Glossary defines *intangible assets* as assets (not including financial assets) that lack physical substance. Accordingly, crypto assets with the previously described characteristics meet the definition of intangible assets and would generally be accounted for under FASB ASC 350, Intangibles — Goodwill and Other.

These crypto assets generally would not meet the definitions of other asset classes within U.S. GAAP, and therefore, accounting for them as other than intangible assets may not be appropriate, as described in the following examples:

- Crypto assets will not meet the definition of *cash* or a *cash equivalents* (as defined in the FASB ASC Master Glossary) when they are not considered legal tender and are not backed by sovereign governments. In addition, these crypto assets typically do not have a maturity date and have traditionally experienced significant price volatility.
- Crypto assets will not be *financial instruments* or *financial assets* (as defined in the FASB ASC Master Glossary) if they are not cash (see previous discussion) or an ownership interest in an entity and if they do not represent a contractual right to receive cash or another financial instrument.
- Although these crypto assets may be held for sale in the ordinary course of business, they are not tangible assets and therefore may not meet the definition of *inventory* (as defined in the FASB ASC Master Glossary).

Under FASB ASC 350, an entity should determine whether an intangible asset has a finite or indefinite life. FASB ASC 350-30-35-4 states that if no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset should be considered indefinite. The term indefinite does not mean infinite or indeterminate. The useful

life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon — that is, there is no foreseeable limit on the period of time over which the asset is expected to contribute to the cash flows of the reporting entity.

Entities should consider the factors outlined in FASB ASC 350-30-35-3 when determining the useful life of an intangible asset. If there is no inherent limit imposed on the useful life of the crypto asset to the entity, then the crypto asset would be classified as an indefinite-lived intangible asset.

As intangible assets, these crypto assets purchased for cash would initially be measured at cost.

The initial measurement guidance in ASC 350-30-30-1 states the following:

30-1 An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially measured based on the guidance included in paragraphs 805-50-15-3 and 805-50-30-1 through 30-4.

As such, ASC 805-50-30-1 and 30-2 specifically state:

30-1 ...Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. ...

30-2 Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. ...

Financial Statement Presentation

ASC 350-30-45-1 provides guidance on the presentation of intangible assets and states:

At a minimum, all intangible assets shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.

In accordance with this guidance, the Company will present the Investment as a separate line item titled "Digital Assets" on its Consolidated Balance Sheet.

The FASB Codification Master Glossary defines current assets as follows:

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

ASC 210-10-45-1 provides guidance on the classification of current assets. The Company will classify the Investment as a non-current asset on its balance sheet (titled "Digital Assets") and include the related cash flows for the purchase of its Investment in the investing section of the statement of cash flows.

Question 3: How should the Investment be subsequently measured?

Having concluded in Question 2 that the Investment is an indefinite-lived intangible asset within the scope of ASC 350, the Company is required to apply the subsequent measurement guidance in ASC 350 to test the Investment for impairment. Specifically, ASC 350-30-35-18 states:

An intangible asset that is not subject to amortization shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

This is consistent with the interpretive guidance included in DI 18-13, Alert 18-9 and the nonauthoritative guidance in Question 4 of the AICPA Guide, which states:

Question 4:

How should an entity account for digital assets that are classified as indefinite-lived intangible assets subsequent to their acquisition?

Response 4:

An indefinite-lived intangible asset is initially carried at the value determined in accordance with FASB ASC 350-30-30-1 and is not subject to amortization. Rather, it should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. Paragraphs 18B and 18C in FASB ASC 350-30-35 provide examples of relevant facts and circumstances that should be assessed to determine if it is more likely than not that an indefinite-lived intangible asset is impaired. If an impairment indicator exists and it is determined that the carrying amount of an intangible asset exceeds its fair value, an entity should recognize an impairment loss in an amount equal to that excess. After the impairment loss is recognized, the adjusted carrying amount becomes the new accounting basis of the intangible asset. Refer to paragraphs 15–20 in FASB ASC 350-30-35 for details on the subsequent accounting for intangible assets that are not subject to amortization.

Consistent with the AICPA Guide above regarding subsequent measurement of digital assets classified as indefinite-lived intangible assets, the Company should monitor events and changes in circumstances that may indicate if it is more likely than not that the Investment is impaired. Specifically, ASC 350-30-35-18B and 35-18C list the following factors to consider:

35-18B In assessing whether it is more likely than not that an indefinite-lived intangible asset is impaired, an entity shall assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. Examples of such events and circumstances include the following:

- a. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- b. Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

- c. Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- d. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- e. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- f. Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

35-18C The examples included in the preceding paragraph are not all-inclusive, and an entity shall consider other relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. An entity also shall consider the following to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired:

- a. Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset
- b. If an entity has made a recent fair value calculation for an indefinite-lived intangible asset, the difference between that fair value and the then carrying amount
- c. Whether there have been any changes to the carrying amount of the indefinite-lived intangible asset.

In considering the above factors in the context of digital assets classified as indefinite-lived intangible assets, the Company should also evaluate transactions where the same digital asset is reportedly bought and sold by third parties on a market at a price below its current carrying value. This is consistent with Question 5 of the AICPA Guide, which states the following:

Question 5:

If a digital asset is classified by an entity as an indefinite-lived intangible asset and identical digital assets are reportedly bought and sold on a market at a price below its current carrying value, is this activity an impairment indicator and if so, should an impairment charge be recorded?

Response 5:

An intangible asset with an indefinite useful life should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that it is impaired...

When an identical digital asset is bought and sold by a third party at a price below the entity's current carrying value, this will often serve as an indicator that impairment is more likely than not. Entities

should monitor and evaluate the quality and relevance of the available information, such as pricing information from the asset's principal (or most advantageous) market or from other digital asset exchanges or markets, to determine whether such information is indicative of a potential impairment.

If an entity determines it is more likely than not that the indefinite-lived intangible asset is impaired, the entity should determine its fair value, following the fair value framework in FASB ASC 820, *Fair Value Measurement*.

If, based on its assessment, the entity concludes that the fair value of the digital asset is less than its carrying value, an impairment loss should be recorded.

If a trigger exists, the Company will determine if the Investment is impaired by comparing the fair value of bitcoin when applying ASC 820 to the current carrying amount of the Investment. ASC 350-30-35-18A provides guidance on qualitative and quantitative assessments for impairment and states:

An entity may first perform a qualitative assessment, as described in this paragraph and paragraphs 350-30-35-18B through 35-18F, to determine whether it is necessary to perform the quantitative impairment test as described in paragraph 350-30-35-19. An entity has an unconditional option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test as described in paragraph 350-30-35-19. An entity may resume performing the qualitative assessment in any subsequent period. If an entity elects to perform a qualitative assessment, it first shall assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired.

To determine the fair value, ASC 820-10-35-5 through 35-6A states:

35-5 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a. In the principal market for the asset or liability
- b. In the absence of a principal market, in the most advantageous market for the asset or liability.

35-5A A reporting entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the reporting entity normally would enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

35-6 If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

35-6A The reporting entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities.

In determining the Company's principal market, the Company considered interpretive guidance in Question E.20 in KPMG LLP's Fair value measurements guide. It states:

E20. How should an entity determine the principal market, and how frequently should it reevaluate its determination?

There is no explicit guidance on how an entity should identify the principal market, over what period it should analyze transactions for that asset or liability, or how often it should update its analysis.

An entity is not required to undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market. However, it should take into account all information that is reasonably available. For example, if reliable information about volumes transacted is publicly available (e.g. in trade magazines or on the internet), it may be appropriate to consider this information to determine the principal market.

Absent evidence to the contrary, the principal (or most advantageous) market is presumed to be the market in which the entity normally enters into transactions to sell the asset or transfer the liability.

In our view, an entity should update its analysis to the extent that events have occurred or activities have changed in a manner that could change the entity's determination of the principal (or most advantageous) market for the asset or liability.

To determine the fair value of bitcoin for a potential impairment, the Company will look at the quoted market price of bitcoin on the [REDACTED] exchange, which the Company has identified as its principal market, multiplied by the quantity of bitcoin held by the Company (i.e. PxQ) in the applicable wallet (see Question 4 below) in accordance with ASC 820-10-35-44, which states:

35-44 If a reporting entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the reporting entity. That is the case, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The Company will continue to monitor whether an active market exists to determine if a change in the valuation approach is necessary (i.e. something other than PxQ) or an adjustment to the price is necessary.

In addition, the Company considered whether the PxQ valuation should be adjusted due to the large size of the Company's Investment. ASC 820-10-35-36B states the following:

35-36B A reporting entity should select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see FASB ASC 820-10-35-2B through 35-2C). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (for example, a control premium or noncontrolling interest discount). However, a fair value measurement should not incorporate a premium or discount that is inconsistent with the unit of account in the Topic that requires or permits the fair value measurement. Premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in FASB ASC 820-10-35-44), rather than as a characteristic of the asset or liability (for example a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.

Based on this guidance, the Company concluded it should not adjust the PxQ measurement for a blockage factor due to the size of the Investment. In reaching this conclusion, the Company also noted that the portfolio exception in ASC 820-10-35-18D is not applicable since the Investment is not a financial asset.

In the event an impairment loss on a digital asset classified as an indefinite-lived intangible asset is recorded in the middle of a reporting period (or, in practice as noted above, based on a valuation reached in the middle of a reporting period), these losses cannot be subsequently reversed if the fair value of the digital asset has recovered by the end of the same reporting period. Specifically, ASC 350-30-35-20 states: "Subsequent reversal of a previously recognized impairment loss is prohibited."

This is consistent with AICPA Guide Question 6, which states, in part:

Question 6:

If the fair value of a digital asset that is classified as an indefinite-lived intangible asset has declined below the carrying value in the middle of a reporting period (that is, an impairment has occurred), does impairment need to be recorded if the fair value has recovered by the end of the same period?

Response 6:

Yes. Impairment testing of indefinite-lived intangible assets is required whenever events or changes in circumstances indicate it is more likely than not that impairment has occurred. If the entity concludes the fair value of the digital asset is less than its carrying value, an impairment loss is recorded at that time. Pursuant to FASB ASC 350-30-35-20, subsequent reversal of previously recorded impairment losses on indefinite-lived intangible assets is prohibited. This provision applies even if the fair value of the digital asset recovers above the original carrying value within the same accounting period...

Question 4: What is the appropriate unit of account to use in measuring impairment?

In evaluating the appropriate unit of account for evaluating impairment of digital assets classified as indefinite-lived intangible assets, the Company considered the guidance in ASC 350-30-35-21 to 35-27, which state the following:

35-21 Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another.

35-22 Determining whether several indefinite-lived intangible assets are essentially inseparable is a matter of judgment that depends on the relevant facts and circumstances. The indicators in paragraph 350-30-35-23 shall be considered in making that determination. None of the indicators shall be considered presumptive or determinative.

35-23 Indicators that two or more indefinite-lived intangible assets shall be combined as a single unit of accounting for impairment testing purposes are as follows:

- a. The intangible assets were purchased in order to construct or enhance a single asset (that is, they will be used together).
- b. Had the intangible assets been acquired in the same acquisition they would have been recorded as one asset.
- c. The intangible assets as a group represent the highest and best use of the assets (for example, they yield the highest price if sold as a group). This may be indicated if it is unlikely that a substantial portion of the assets would be sold separately or the sale of a substantial portion of the intangible assets individually would result in a significant reduction in the fair value of the remaining assets as a group.
- d. The marketing or branding strategy provides evidence that the intangible assets are complementary, as that term is used in paragraph 805-20-55-18.

35-24 Indicators that two or more indefinite-lived intangible assets shall not be combined as a single unit of accounting for impairment testing purposes are as follows:

- a. Each intangible asset generates cash flows independent of any other intangible asset (as would be the case for an intangible asset licensed to another entity for its exclusive use).
- b. If sold, each intangible asset would likely be sold separately. A past practice of selling similar assets separately is evidence indicating that combining assets as a single unit of accounting may not be appropriate.
- c. The entity has adopted or is considering a plan to dispose of one or more intangible assets separately.
- d. The intangible assets are used exclusively by different asset groups (see the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10).
- e. The economic or other factors that might limit the useful economic life of one of the intangible assets would not similarly limit the useful economic lives of other intangible assets combined in the unit of accounting.

[...]

35-26 All of the following shall be included in the determination of the unit of accounting used to test indefinite-lived intangible assets for impairment:

- a. The unit of accounting shall include only indefinite-lived intangible assets—those assets cannot be tested in combination with goodwill or with a finite-lived asset.
- b. The unit of accounting cannot represent a group of indefinite-lived intangible assets that collectively constitute a business or a nonprofit activity.
- c. A unit of accounting may include indefinite-lived intangible assets recorded in the separate financial statements of consolidated subsidiaries. As a result, an impairment loss recognized in the consolidated financial statements may differ from the sum of the impairment losses (if any) recognized in the separate financial statements of those subsidiaries.
- d. If the unit of accounting used to test impairment of indefinite-lived intangible assets is contained in a single reporting unit, the same unit of accounting and associated fair value

AICPA Guide, Question 7 addresses the above guidance in the context of evaluating impairment for digital assets classified as indefinite-lived intangible assets, stating that entities typically have the ability to sell each unit of digital assets and thus meet the criteria of ASC 350-20-35-24(b) above. Specifically, the AICPA Guide states (emphasis added):

Question 7:

How should an entity determine the unit of account when assessing impairment of digital asset holdings accounted for as an indefinite-lived intangible asset?

Response 7:

Entities often engage in multiple acquisitions and dispositions of digital assets during a period. Entities should determine the unit of account for purposes of testing the indefinite-lived intangible asset for impairment by applying guidance in paragraphs 21–27 of FASB ASC 350-30-35. **Consistent with FASB ASC 350-30-35-24, because entities usually have the ability to sell or otherwise dispose of each unit (or a divisible fraction of a unit) of a digital asset separately from any other units, entities will generally reach the determination that the individual unit (or a divisible fraction of a unit) represents the unit of account for impairment testing purposes.** To perform impairment testing, entities should track the carrying values of their individual digital assets (or a divisible fraction of an individual unit).

When performing the impairment testing for an individual digital asset, the entity should compare the carrying value of that specific asset with its fair value. If an entity determines that an individual unit (or a divisible fraction of a unit) represents the unit of account for impairment testing purposes, it would not be appropriate to perform such comparison for a bundle of digital assets of the same type purchased at different prices. This approach could lead to an inappropriate reduction in the amount of the impairment loss by netting (1) losses on units with carrying values above the current fair value against (2) unrealized gains on units with carrying values below the current fair value.

Practically speaking, entities could perform impairment testing for batches of digital asset units (or divisible fractions of a unit) with the same acquisition date and the same carrying value.

Financial Statement Presentation

ASC 350-30-45-2 provides guidance on the presentation of impairments on intangible assets and states (**emphasis added**):

The amortization expense and impairment losses for intangible assets **shall be presented in income statement line items within continuing operations as deemed appropriate for each entity.**

As emphasized above, the financial statement presentation of impairment losses and whether those losses are included within continuing operations should be considered on an entity by entity basis as deemed appropriate for each entity.

The Company will classify its impairment of the Investment in a separate line item within income from operations titled "Digital asset impairment losses (gains on sale), net". Furthermore, impairment losses on the Investment will be deducted from net income within the operating section of the statement of cash flows as a noncash adjustment to reconcile net income. See discussion within Question 5 below regarding gains on sales of the Investment and the consistent financial statement presentation.

Question 5: How should the Company account for sales of the Investment?

When selling all or a portion of the Investment, the Company should develop a reasonable and rational methodology for identifying which units of the Investment were sold and apply it consistently.

This is consistent with AICPA Guide Question 8, which states:

Question 8:

When selling a portion of an entity's digital asset holdings that are accounted for as indefinite-lived intangible assets, how should an entity determine the cost basis of the units sold?

Response 8:

Entities should track the cost (or subsequent carrying value) of units of digital assets they obtain at different times and use this value for each unit of digital assets upon derecognition when they sell or exchange digital assets for other goods or services. Digital assets typically represent fungible units that can be subdivided into smaller fractional units. It may not be possible to identify which specific units of digital assets were sold or transferred in certain cases. For instance, it may be clear that the number of units of digital assets held has gone down (for example, from 10 units to 9 units in the entity's wallet) but not whether the first, last, or some other unit purchased was the one sold. An entity may apply the guidance in these circumstances by developing a reasonable and rational methodology for identifying which units of digital assets were sold and apply it consistently. For example, one reasonable and rational approach could be using the first-in, first-out method.

The Company has determined that it is able to track its separate purchases of the Investment since each individual purchase (all BTC purchased at the same time and same price) was placed in a separate wallet and, as such, will use the specific identification method when accounting for its sales of bitcoin.

ASC 350-10-40-1 provides guidance on the derecognition of intangible assets and states:

An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a contract with a customer shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

When the Company chooses to sell the Investment (or part of the Investment), the Company will account for the sale in accordance with FASB ASC 610-20 *Gains and Losses from the Derecognition of Nonfinancial Assets*. FASB ASC 610-20-32-2, states:

32-2 When an entity meets the criteria to derecognize a distinct nonfinancial asset or a distinct in substance nonfinancial asset, it shall recognize a gain or loss for the difference between the amount of consideration measured and allocated to that distinct asset in accordance with paragraphs 610-20-32-3 through 32-6 and the carrying amount of the distinct asset. The amount of consideration promised in a contract that is included in the calculation of a gain or loss includes both the transaction price and the carrying amount of liabilities assumed or relieved by a counterparty.

Upon sale, the Company will recognize a gain or loss for the difference between the current carrying value of the Investment and the fair value for which the bitcoin is sold.

ASC 610-20-45-1 provides presentation guidance of sales of nonfinancial assets and states:

See paragraph 360-10-45-5 for guidance on presentation of a gain or loss recognized on the sale of a long-lived asset (disposal group).

ASC 360-10-45-5 states:

A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (disposal group) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

Based on this guidance, the Company will record any gains on sale of Bitcoin within the same line as impairment losses within income from operations, titled "Digital asset impairment losses (gains on sale), net".

Proceeds from the sale of the Investment will be presented within the investing section of the statement of cash flows, consistent with the presentation of purchases of the Investment.

Question 6: How should the Company account for sales of the Investment?

Intangible Asset

As the Investment is accounted for under FASB ASC 350, the following disclosures are relevant from FASB ASC 350-30-50-1 through 2 (**emphasis** added):

50-1 For intangible assets acquired either individually or as part of a group of assets (in either an asset acquisition, a business combination, or an acquisition by a not-for-profit entity), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.

50-2 The following information shall be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:

b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class

Impairment

ASC 350-30-5-3 provides specific requirements on disclosures for impairment. It states (**emphasis** added):

50-3 For each impairment loss recognized related to an intangible asset, all of the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment

b. The amount of the impairment loss and the method for determining fair value

c. The caption in the income statement or the statement of activities in which the impairment loss is aggregated

d. If applicable, the segment in which the impaired intangible asset is reported under Topic 280.

KPMG LLP has interpretive guidance in its *Impairment of nonfinancial assets* guide ("KPMG Guide"). Specifically Question 10.2.60 states:

Question

Is an entity expected to disclose the events or conditions that led to impairment?

Interpretive Response

Yes. This requirement applies regardless of whether the impairment loss was the result of an entity's annual impairment test or an interim triggering event that led to an impairment test.

Fair Value Measurements

As noted in question 3 of this memo, the Company's evaluation of fair value during the period is within the scope of FASB ASC 820 *Fair Value Measurement* as a nonrecurring fair value measurement. This is consistent with KPMG LLP's interpretive guidance in the KPMG Guide. Specifically Question 10.2.30 states:

Question

Are impairment-related fair value measurements 'recurring' or 'nonrecurring' under Topic 820?

Interpretive Response

Impairment-related fair value measurements are 'nonrecurring' under Topic 820. Recurring fair value measurements arise from assets and liabilities measured at fair value at the end of each reporting period (e.g. trading securities). Nonrecurring fair value measurements are fair value measurements triggered by circumstances that may occur during the reporting period (e.g. an impaired nonfinancial asset resulting in the need for fair value measurement).

This distinction is important because it drives the level of fair value disclosures required. The disclosures required for a nonrecurring fair value measurement apply in the financial statements for the period in which the fair value measurement occurred.

As such, the Company would also need to include relevant disclosures within ASC 820-10-50-1 through 2b, which state (**emphasis added**):

50-1 A reporting entity shall disclose information that helps users of its financial statements assess both of the following:

- a. For assets and liabilities that are measured at fair value on a recurring or nonrecurring basis in the statement of financial position after initial recognition, **the valuation techniques and inputs used to develop those measurements**
- b. For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) or other comprehensive income for the period.

50-1A To meet the objectives in the preceding paragraph, **a reporting entity shall consider all of the following:**

- a. **The level of detail necessary to satisfy the disclosure requirements**
- b. **How much emphasis to place on each of the various requirements**
- c. **How much aggregation or disaggregation to undertake**
- d. **Whether users of financial statements need additional information to evaluate the quantitative information disclosed.**

If the disclosures provided in accordance with this Topic and other Topics are insufficient to meet the objectives in the preceding paragraph, a reporting entity shall disclose additional information necessary to meet those objectives.

50-2 A reporting entity shall disclose the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities)

measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

- a. For recurring fair value measurements, the fair value measurement at the end of the reporting period, and **for nonrecurring fair value measurements, the fair value measurement at the relevant measurement date and the reasons for the measurement.** Recurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position at the end of each reporting period. **Nonrecurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position in particular circumstances (for example, when a reporting entity measures a long-lived asset or disposal group classified as held for sale at fair value less costs to sell in accordance with Topic 360 because the asset's fair value less costs to sell is lower than its carrying amount). For nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, a reporting entity shall clearly indicate that the fair value information presented is not as of the period's end as well as the date or period that the measurement was taken.**
- b. For recurring and nonrecurring fair value measurements, **the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety** (Level 1, 2, or 3). ...

Based on the discussion included in question 3 above regarding the fair value determination for purposes of impairment, the Company has concluded that the fair value of the Investment, as a result of impairment losses, is classified as a Level 1 asset in the fair value hierarchy. Specifically, ASC 820-10-35-40 defines Level 1 inputs as follows:

35-40 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Since the Company is obtaining quoted prices of bitcoin, an identical asset as the Investment, from [REDACTED] and the Company has concluded that based on the volume of activity on the [REDACTED] exchange, it represents an active market, and the Company has access to the market, the Company concludes it to be a Level 1 input. As such the Company considered only the Level 1 nonrecurring disclosures required in ASC 820.

The disclosure requirements related to required Level 2 and Level 3 disclosures were not included in the guidance provide above. The extent of the Company's disclosures pursuant to FASB ASC 820 will change if the determination of the Investment as Level 1 were to change.

These disclosures are consistent with interpretive guidance in the KPMG Guide. Specifically Questions 10.2.20 and 10.2.50 state:

Question

Is an entity required to disclose the method(s) used to measure fair value?

Interpretive Response

Yes. This is a specific requirement of Subtopics 350-20 and 350-30, and Topic 360 – in addition to the requirements of Topic 820 (see Question 10.2.50). For reporting units and asset groups, an entity is also required to disclose whether the method of measuring fair value was based on a quoted market price, prices for comparable businesses or nonprofit activities (or similar assets), another valuation technique, or a combination thereof.

An entity meets this disclosure requirement by disclosing the method(s) used to determine fair value – e.g. quoted market price or discounted cash flows under the income approach.

Question

To what extent do the Topic 820 disclosures apply?

Interpretive Response

Absent any exemptions, the Topic 820 disclosures for nonrecurring fair value measurements apply to the fair value measurements that were the basis for an impairment loss related to goodwill, long-lived assets or an indefinite-lived intangible asset. However, there are two exemptions from the requirement to disclose quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy (paragraph 820-10-50-2(bbb)).

— For nonpublic entities, disclosures related to the impairment of indefinite lived intangible assets. [350-30-50-3A]

— For all entities, disclosures related to the impairment of goodwill. [350-20-50-3]

There is no exemption related to the impairment of long-lived assets. Taking into account the exemptions, the following table summarizes the Topic 820 disclosures that apply to impairments:

| | Indefinite-lived intangibles | Long-lived assets | Goodwill |
|---|------------------------------|-------------------|----------|
| Fair value and, if applicable, statement that it was not as of the reporting date [820-10-50-2(a)] | ✓ | ✓ | ✓ |
| Reasons for the measurement [820-10-50-2(a)] | ✓ | ✓ | ✓ |
| Level within hierarchy [820-10-50-2(b)] | ✓ | ✓ | ✓ |
| Description of valuation technique and inputs used [820-10-50-2(bbb)(1)] | ✓ | ✓ | ✓ |
| Changes to valuation approaches and/or techniques, and reasons therefor [820-10-50-2(bbb)(1)] | ✓ | ✓ | ✓ |
| Quantitative information about significant unobservable inputs [820-10-50-2(bbb)(2)] | P | ✓ | ✗ |
| For nonfinancial assets when highest and best use differs from actual, the reasons why [820-10-50-2(h)] | ✓ | ✓ | ✓ |
| Legend ✗ Disclosure not required ✓ Disclosure required for all entities P Disclosure required for public business entities only | | | |

As noted within question 5 of this memo, the Company will account for its sale of the Investment based on guidance within FASB ASC 610 *Other Income*. As FASB ASC 610-20-50-1 references FASB ASC 360 as the appropriate disclosure guidance to consider, and in the absence of specific accounting guidance for cryptocurrencies, including disclosure considerations, the Company has considered guidance within FASB ASC 360-10-50-3, as detailed below.

610-20-50-1 See paragraphs 360-10-50-3 through 50-3A for guidance on disclosure of a gain or loss recognized upon the derecognition of a long-lived asset (disposal group).

360-10-50-3 For any period in which a long-lived asset (disposal group) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

- a. A description of the facts and circumstances leading to the disposal or the expected disposal.
- b. The expected manner and timing of that disposal.
- c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.
- d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.
- e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.
- f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

The Company will disclose its Investment, the impairments recorded, the fair value considerations, the sale of the Investment, and any other relevant facts in accordance with the guidance above in its Forms 10-Q and 10-K. The Company will also consider thresholds set by the SEC within Regulation S-X to evaluate whether any of these transactions require separate financial statement presentation.

Question 7: What are the tax accounting implications of the investment?

As established in the background section above, crypto assets are indefinite-lived intangibles, subject quarterly impairment test for US GAAP purposes. Further, the Company is required to pay transaction fees for purchases of the Investment, which are paid in Bitcoin. For US GAAP purposes, the transaction costs are capitalized as part of the Investment. As such, the Company's cost basis for the investment will be the total amount paid, which includes transaction fees. When sold, the Company will recognize for US GAAP purposes a gain or loss for the difference between the current carrying value of the Investment and the fair value for which the bitcoin is sold.

How should Company treat their investment in digital assets for tax purposes?

In 2014, the IRS issued Notice 2014-21 which clarified that cryptocurrency is considered property for US income tax purposes. At the time of this Notice, there was primarily bitcoin and three other digital assets. In 2019, at a time when there were thousands of cryptocurrencies in existence, the more common vernacular has become "digital assets" but the IRS and other government agencies still use "cryptocurrencies" interchangeably. In 2019, the IRS re-affirmed the classification of cryptocurrency as property by Revenue Ruling 2019-24 and a series of Q&As on the IRS website. More specific characterization of digital assets for tax purposes should be confirmed using general tax principles and must consider the facts and circumstances as well as the means in which the taxpayer uses the digital assets.

Section 1221 defines "capital asset" as property held by the taxpayer, whether it is connected with the taxpayer's trade or business. Section 1221 does not include—

- (1) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;
- (2) property, used in his trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in his trade or business;
- (3) a patent, invention, model or design (whether patented), a secret formula or process, a copyright, a literary, musical, or artistic composition, a letter or memorandum,
- (4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property
- (5) a publication of the United States Government (including the Congressional Record) which is received from the United States Government or any agency thereof, other than by purchase at the price at which it is offered for sale to the public,)
- (6) any commodities derivative financial instrument held by a commodities derivatives dealer, unless—
 - (A) it is established to the satisfaction of the Secretary that such instrument has no connection to the activities of such dealer as a dealer, and
 - (B) such instrument is clearly identified in such dealer's records as being described in subparagraph (A) before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe);

Company intends to hold digital assets as investments or treasury reserve assets and not use them in their trade or business. As such, they are likely considered a capital asset in the hands of Company. Any gains or losses realized upon sale or exchange are likely to be capital gains and losses. This will need to be re-evaluated if Company starts to use digital assets in their trade or business or if they diversify into other forms of digital assets beyond bitcoin.

How are transaction costs treated for income tax purposes?

The tax treatment of transaction costs will follow US GAAP and capitalize to the basis of the investment. In general, Internal Revenue Code Section 1012 states that the basis of property shall be the cost of such property. Additionally, the IRS issued frequently asked questions with respect to virtual currency and addressed the question as follows:

Q7. How do I determine my basis in virtual currency I purchased with real currency?

A7. Your basis (also known as your “cost basis”) is the amount you spent to acquire the virtual currency, including fees, commissions and other acquisition costs in U.S. dollars. Your adjusted basis is your basis increased by certain expenditures and decreased by certain deductions or credits in U.S. dollars. For more information on basis, see Publication 551, Basis of Assets.

What is the deferred accounting at the time of acquisition of the digital asset?

The book and tax basis of the intangible will be the same upon acquisition and deferred taxes will not be required to be recorded.

What is the impact of any impairment for tax purposes?

The write down of the intangible for GAAP purposes will create a book tax basis difference upon recognition of the impairment. The impairment will generate a deferred tax asset because the tax basis will be higher than the carrying value for US GAAP purposes. The deferred tax asset generated with the impairment will need to be measured for realizability (ASC 740-10-30-5(e)).

As the underlying asset is capital in nature, the sale of the bitcoin will generate a capital gain or loss. Pursuant to IRC 1211, losses from sales of capital assets are allowed only to the extent of capital gains. Further, IRC 1212, allows for a carryback of capital losses to each of the 3 preceding taxable years and carryforward for each of the 5 taxable years succeeding the loss year.

In this case, the impairment represents a future capital loss. During the time of the impairment, the Company should evaluate if they have any sources of capital gains. The Company should assess the potential capital gain/loss of the bitcoins by comparing the book value to the fair market value of the bitcoins at quarter end. If the result is a potential net capital gain, then no valuation allowance is required. If the result is a potential net capital loss, and the Company does not hold any other capital assets that could generate capital gains upon sale, then it would not be more likely than not that the deferred tax asset associated with the impairment would be realized and a valuation allowance against the bitcoin assets would be required. The valuation allowance should be the potential net capital loss amount at the quarter end. The assessment should be performed and valuation allowance be adjusted at each quarter end.

The write down of the intangibles is a component of pretax income that is not estimable and will not be included in the annual forecasted income and annual tax rate for quarterly provision purposes. According to the guidance in ASC 740-270-30-17, the impairment will be reported discretely in the quarter it occurs and will create a deferred tax benefit.

What is the deferred tax accounting at the time of disposal?

If the digital asset is sold for a loss after impairment, the Company will generate a capital loss and replace the impairment DTA with a capital loss DTA. If the capital loss is larger than the cumulative impairment, the excess amount will require a valuation allowance with an offsetting impact to deferred expense.

If the digital asset is sold at a gain, then it is likely no book tax difference will exist (since book and tax basis are the same without impairment). As such the gain will result in a current tax expense similar to any other pre-tax book income item.

If there are capital gains on assets that were previously impaired, the valuation allowance on the capital loss DTA will be released to the extent of the capital gains realized. This valuation allowance release will result in a deferred tax benefit.

Tax accounting methods

Company has established a custodial relationship with [REDACTED] in which they have segregated different tranches of purchased digital assets into different addresses. This allows Company to implement a tax accounting method in which they choose which digital assets are eventually sold and which associated basis is used to calculate gain. Further, Company will not recognize gain or loss until such time that the digital assets are sold or exchanged. Further details of these accounting methods are depicted in a separate tax analysis.

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