

# KEY CONSIDERATIONS FOR [CORPORATE INVESTMENT IN BITCOIN][REDACTED]

MicroStrategy 2022

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[Redacted]

## I. BUSINESS STRATEGY AND GOVERNANCE

### A. Priority considerations

1. Rationale for investing in BTC
2. Change in investment risk-reward considerations in holding BTC vs. cashequivalents
3. Business and strategy narrative, which will impact customer, investor, and employee perception of MSTR (see below for additional related points)
4. Potential negative impacts on stock price and increased stock price volatility
5. Accounting treatment and impact on reported corporate earnings
  - a) Impairment testing if BTC is treated as indefinite-lived intangible asset
  - b) Potential inability to reverse previously-recorded impairment losses

### B. Other important considerations

1. Significant allocation to BTC deviates from approaches of typical publicly-traded companies
2. [Redacted]
3. Risk of theft/fraud losses greater due to irreversibility and near-anonymity of BTC transactions
4. Tax impacts

## II. RISK MANAGEMENT

### A. Priority considerations

1. BTC investment management policy
  - a) Guardrails to mitigate risk of inadvertently conducting regulated activity (e.g., under money transmitter laws, commodity laws, and securities laws)
  - b) Authorized persons for conducting transactions
  - c) Vendor (i.e., exchange/custodian) management and standards
  - d) Board/management approval thresholds for transactions
2. Hedging of BTC investment exposure through derivative instruments

### B. Other important considerations

1. Insurance to protect against loss of BTC (if not available directly through custodian, as noted below)
2. Treatment of BTC under the Uniform Commercial Code, especially if lending of custodied BTC (akin to securities lending) is contemplated

### III. DISCLOSURE MATTERS

#### A. Priority considerations

1. Financial statement impacts
2. Critical accounting policies
  - a) Determination of fair value
  - b) Periodic revaluation of BTC investment
3. Management's Discussion and Analysis of Financial Condition
  - a) Discussion of impact of BTC valuation on quarterly results
  - b) Liquidity and capital resources discussion

#### B. Other important considerations

1. Quantitative and Qualitative Disclosures About Market Risk
  - a) Disclosure of impact on earnings of hypothetical increase or decrease in BTC market value
2. Risk Factors
  - a) Regulatory risk and related controls
  - b) BTC, stock, and earnings volatility
  - c) Risk of theft and fraud loss
  - d) Lack of diversification risk
  - e) Potential loss of liquidity in BTC

### IV. EXECUTION OF BTC INVESTMENTS

#### A. Priority considerations

1. Establish custody and storage solutions
  - a) Engage a U.S. based "qualified custodian," which will be a fiduciary under applicable banking regulations. Qualified custodians include [Redacted].
  - b) Consider multiple custodial accounts for diversification, and assess limits of insurance on deposits with custodian
2. Establish partnership (as needed) with broker for executing BTC transactions
  - a) For very large transactions, consider engaging a broker that specializes in large BTC transactions to optimize pricing. These include [Redacted].
  - b) Some custodians also have affiliated trade execution platforms (e.g., [Redacted]), which could also be used and may be able to lessen trading times
  - c) Confirm that broker does not conduct transactions in a way that may cause derivative contract recharacterization risk

#### B. Other important considerations

1. Determine method(s) of BTC storage and allocation between methods
  - a) Choice between "hot wallets" (online) or "cold storage" (offline/physical vault); custodians typically offer a combination of both to customers
  - b) Hot wallets (online) offer easier liquidity, but are more at risk for theft. Cold storage (offline/physical vault) renders keys inaccessible to theft, but slows access times for trades.
  - c) Likely best to maximize holdings in cold storage, which is the optimal approach for "buy/hold" investor (i.e., not active trader) and would be better for any risk disclosures
  - d) For cold storage, confirm withdrawal timeframes with custodian for purposes of assessing liquidity risk

2. Negotiate fees
  - a) Initial setup fee, a percentage of assets under custody, and transaction fees for purchases/sales of BTC
  - b) Fees may be negotiable given amounts of assets to be held with a given custodian and/or size of transaction to be conducted
3. Negotiate contractual protections and ancillary services
  - a) Custodian should offer independent storage and best-in-class security systems used to hold large quantities of cryptocurrency and make strong contractual reps regarding security
  - b) Confirm whether insurance is available as a built-in or supplemental product
  - c) If ability to lend custodied BTC is desired (which may provide additional revenue), consider a custodian that offers a lending service ancillary to digital asset custody
  - d) Confirm whether custodian allows withdrawals of BTC to another custodian if desired, or if assets must be "cashed out"
  - e) Confirm how custodian will treat BTC forks and airdrops under contract

