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September 15, 2021

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-51161

Via email: director@fasb.org

**File Reference No. 2021-004**

Dear Ms. Salo,

We fully support the ongoing mission of the Financial Accounting Standards Board ("FASB") to improve financial accounting and reporting standards in the United States and, in doing so, seeking broad stakeholder feedback to help shape its future standard-setting agenda. We appreciate the opportunity to respond to the FASB's Invitation to Comment, Questions 11-12, with respect to digital assets - in particular, digital assets such as bitcoin.

**MicroStrategy Incorporated Background**

MicroStrategy Incorporated (Nasdaq: MSTR) ("MicroStrategy") began purchasing bitcoin in August 2020 and, in September 2020, our Board of Directors adopted a Treasury Reserve Policy setting bitcoin as our primary treasury reserve asset, subject to market conditions and anticipated needs for cash, cash equivalents, and traditional short-term investments to operate our enterprise analytics software business. We currently hold a total of approximately 114,042 bitcoins, acquired at an aggregate cost of approximately $3.2 billion, and with an estimated market value on our principal market of approximately $5.5 billion as of the date of this letter.

In the first quarter of 2021, we determined to pursue as part of our overall corporate strategy, a strategy of acquiring bitcoin with our liquid assets that exceed working capital requirements, and from time to time, subject to market conditions, issuing debt or equity securities with the objective of using the proceeds to purchase bitcoin. We now pursue two corporate strategies in the operation of our business: (1) to acquire and hold bitcoin, which we view as a store of value, supported by a robust and public open-source architecture, that is untethered to sovereign monetary policy and can therefore serve as a hedge against inflation and (2) to grow our enterprise analytics software business to promote our vision of Intelligence Everywhere. We believe that our bitcoin acquisition strategy is complementary to our enterprise analytics software and services business, as we believe that our bitcoin and related activities in support of the bitcoin network enhance awareness of our brand and can provide opportunities to secure new customers for our analytics offerings.

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We view our bitcoin holdings as long-term holdings and we do not plan to engage in regular trading of bitcoin. As of the date of this letter, we have not sold, hedged or otherwise entered into derivative contracts with respect to our bitcoin holdings, though we may sell bitcoin in future periods as needed to generate cash for treasury management and general corporate purposes. We have also not targeted any specific amount of bitcoin holdings, and we will continue to monitor market conditions in determining whether to conduct debt or equity financings to purchase additional bitcoin. As of the date of this letter, we have issued $2.3 billion aggregate principal amount of indebtedness and shares of our class A common stock having an aggregate offering price of approximately $400 million and used the proceeds from such issuances to purchase bitcoin. We have also used cash generated from the operation of our enterprise analytics software business to purchase bitcoin.

**Current Challenges in Accounting for Digital Assets**

Since there is not authoritative U.S. generally accepted accounting principles ("GAAP") that directly addresses the accounting for an investment in a digital asset, we have accounted for our bitcoin holdings in accordance with Accounting Standards Codification ("ASC") 350, Intangibles—Goodwill and Other ("ASC 350"), under which digital assets generally meet the definition of an indefinite-lived intangible asset. As discussed in more detail below, we believe the current accounting treatment for digital assets under ASC 350 requires entities with significant digital asset holdings to prepare their financial statements in a manner that does not accurately reflect their financial condition and results of operations. This disconnect between an entity's financial statements and the economic reality of its financial condition and results of operations creates confusion and fails to provide investors, analysts, and the general public with the information they need to make an informed assessment of an entity's current and future prospects.

*Balance Sheet*

Under ASC 350, indefinite-lived intangible assets are initially recorded at their historical cost and subsequently tested for impairment at least annually, or more frequently if events or circumstances exist that indicate impairment has more likely than not occurred. Such events or circumstances include when the fair value of the asset declines below its recorded carrying value. Applied to digital assets, we are required to evaluate transactions where the same digital asset is bought and sold by third parties on a market at a price below its current carrying value as recorded on our financial statements. Given the volatility of digital assets, like bitcoin, we continuously assess our bitcoin holdings for impairment, writing each bitcoin's carrying value down to the lowest reported price on the exchange we have selected as our principal bitcoin market since its acquisition.

Impairment charges, including intra-reporting period impairment charges, cannot be reversed once recorded under ASC 350. As a result, subsequent increases in the market price of a digital asset are not reflected in the digital asset's reported carrying value on an entity's balance sheet. Entities with significant digital asset holdings, such as MicroStrategy, are therefore required to report digital asset carrying values on their balance sheets that diverge significantly from their fair market value. For example, as of June 30, 2021, we held 105,085 bitcoins with an original aggregate cost basis of $2.7 billion. After recording cumulative impairment charges of $690 million, the carrying value of our

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bitcoin holdings was reflected as $2.1 billion on our balance sheet as of June 30, 2021. The estimated fair market value of our bitcoin holdings on June 30, 2021 was approximately $3.7 billion based on the prevailing price of bitcoin reported on our principal market on that date. Accordingly, there was an approximately $1.6 billion disconnect between the carrying value reported on our balance sheet and the market value of our bitcoin holdings as of June 30, 2021.

We expect the disconnect between the reported carrying value on our balance sheet and the fair market value of our bitcoin holdings to grow significantly over time due both to the effect of volatility in bitcoin prices that can result in additional impairment charges and the lack of adjustment for any future increases in the fair market value of bitcoin. The current accounting treatment required by ASC 350 is therefore incongruous to the bitcoin value perceived by investors and consumers alike, who consider bitcoin more akin to traditional financial instruments that are measured at fair value. In response to direct feedback from certain investors, we expanded our non-GAAP disclosure, beginning in the second quarter of 2021, to include the information that they indicated is important to their evaluation of our business. The following table shows this disclosure, including the historical cost basis of our bitcoin holdings and the then current market value on our principal market:

| | As Reported | | | | Market Value | |
|---|---|---|---|---|---|---|
| | **Digital Asset Carrying Value (in thousands)** | **Add Back: Digital Asset Impairment Losses (in thousands)** | **Digital Asset Original Cost Basis (in thousands)** | **Approximate Number of Bitcoins Held** | **Market Price Per Bitcoin** | **Market Value of Bitcoin Held (in thousands)** |
| **Reconciliation of digital asset cost basis:** | | | | | | |
| **Balance at June 30, 2020** | **$ 0** | **$ 0** | **$ 0** | **0** | **n/a** | **n/a** |
| Digital asset purchases | 425,000 | | 425,000 | 38,250 | | |
| Digital asset impairment losses | (44,242) | 44,242 | | | | |
| **Balance at September 30, 2020** | **$ 380,758** | **$ 44,242** | **$ 425,000** | **38,250** | **$ 10,706.00** | **$ 409,505** |
| Digital asset purchases | 700,000 | | 700,000 | 32,219 | | |
| Digital asset impairment losses | (26,456) | 26,456 | | | | |
| **Balance at December 31, 2020** | **$ 1,054,302** | **$ 70,698** | **$ 1,125,000** | **70,469** | **$ 29,181.00** | **$ 2,056,356** |
| Digital asset purchases | 1,086,375 | | 1,086,375 | 20,857 | | |
| Digital asset impairment losses | (194,095) | 194,095 | | | | |
| **Balance at March 31, 2021** | **$ 1,946,582** | **$ 264,793** | **$ 2,211,375** | **91,326** | **$ 58,601.28** | **$ 5,351,820** |
| Digital asset purchases | 529,231 | | 529,231 | 13,759 | | |
| Digital asset impairment losses | (424,774) | 424,774 | | | | |
| **Balance at June 30, 2021** | **$ 2,051,039** | **$ 689,567** | **$ 2,740,606** | **105,085** | **$ 34,763.47** | **$ 3,653,119** |

Presenting this non-GAAP disclosure provides investors with the type of "return-on-investment" viewpoint that investors have indicated is valuable to their analysis of the financial health of our company. Without this non-GAAP metric, we believe that our current balance sheet and footnote disclosures, while fully compliant with ASC 350, would fail on their own to provide an accurate snapshot of the economic reality of our financial condition.

*Income Statement*

Under ASC 350, impairment losses are required to be presented within continuing operations on an entity's income statement. We present impairment losses related to our bitcoin holdings in a separate operating expense line item titled "Digital asset impairment losses." Although the impairment losses are separated from other operating expenses on our income statement to maximize transparency, impairment losses continue to be included in the calculation of "income (loss) from operations", which is a key operating metric used by investors. We have reported significant losses from

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operations since we began acquiring bitcoin in the third quarter of 2020, as a result of the impairment losses we have been required to record on our bitcoin holdings under ASC 350, even as the fair market value of our overall bitcoin holdings has risen substantially. Although we have provided non-GAAP disclosure that shows the impact of impairment losses on our results of operations (as shown below), we believe that our reported income statement has not reflected the economic reality of our business as the impairment losses have masked the general health and improving operating margins of our enterprise analytics software business and failed to reflect the overall increase in the value of our overall bitcoin holdings. In comparison to traditional intangible assets (e.g., patents, copyrights, trademarks, etc.), including impairment losses in operating results for entities that hold bitcoin for long-term investment purposes is inapposite since the bitcoin is not being directly utilized to generate revenues or support normal business operations.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Reconciliation of non-GAAP income from operations:** | | | | |
| (Loss) income from operations | $ (414,247) | $ 6,328 | $ (597,399) | $ 6,256 |
| Share-based compensation expense | 11,096 | 2,226 | 18,807 | 5,337 |
| Digital asset impairment losses | 424,774 | 0 | 618,869 | 0 |
| Non-GAAP income from operations | $ 21,623 | $ 8,554 | $ 40,277 | $ 11,593 |

## Proposed Solution

We believe digital assets should be measured at their fair value at the end of each reporting period to the extent that such fair value is "readily determinable", with unrealized gains and losses reported in an entity's income statement as "other income (loss)". While bitcoin does not constitute a security under federal securities laws, we believe the treatment of investments in equity securities under ASC 321, Investments – Equity Securities, is informative of these principles. In particular, we believe one of the existing definitions of "readily determinable fair value" in the FASB Master Glossary is instructive:

*"The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc."*

We believe similar consideration could be given to digital assets where active, orderly, and reliable markets exist in which to transact such as is the case for bitcoin. However, we acknowledge that care needs to be taken to establish whether a "readily determinable fair value" for a digital asset exists due to the wide spectrum of digital assets circulating in the market. While there are numerous public exchanges with significant trading volumes for bitcoin, other digital assets are not as well-established or widely accepted and do not have the same deep and liquid markets. Fair value reporting for these less established digital assets would be inappropriate where their trading markets do not have the same characteristics as bitcoin markets. We are of the view that the existing fair value hierarchy in ASC 820, Fair Value Measurements, could be further expanded to help analyze the variety of markets under which pricing is available and assist in determining which digital assets should be

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afforded having "readily determinable fair value" and ultimately qualify for fair value treatment. Where an acceptable threshold of "readily determinable fair value" is not attainable, the existing intangible asset accounting model should continue to apply.

MicroStrategy has spent, and continues to spend, a significant amount of time expanding its quarterly disclosures, earnings calls, and investor presentations to provide the fair value information both management and investors deem more meaningful than our existing GAAP compliant disclosure. Any incremental costs in adopting a fair value model would, therefore, be negligible as most institutional investors are already tracking fair value of these assets in order to provide the true economic value of such assets to the public. In fact, adopting a fair value model would likely remove many unnecessary costs and complexities associated with continuously tracking digital assets for potential impairment versus fair value reporting, including having to maintain separate reporting processes.

Utilizing a fair value approach also would provide for greater transparency to investors and limit the risk of disparate disclosure between otherwise similarly situated reporting companies. While non-GAAP financial measures have been used by entities to alleviate some of the disconnect between the reported carrying value of their digital asset holdings and results of operations and the economic reality of such entity's financial condition caused by the current accounting treatment required by ASC 350, these non-GAAP financial measures often differ widely on a company-by-company basis. For this very reason, the SEC has historically cautioned both companies and investors with regard to the use of and reliance upon non-GAAP financial measures. By having a GAAP requirement of a fair value accounting for digital assets that have readily determinable fair values, investors would benefit from improved comparability both between periods for specific entities and across all entities that have invested in the same class of digital assets.

**The Need for Change Now**

Institutional support for bitcoin continues to grow and, in our experience, the existing indefinite-lived intangible accounting model being applied to digital assets does not provide investors, analysts, or the general public with the information they need to make an informed assessment of an entity's current and future prospects. As outlined above, the current accounting model required by ASC 350 can create a significant disconnect between the carrying value of an entity's digital asset holdings presented on its balance sheet and the economic reality of the entity's financial condition and can provide a contradictory view of an entity's business operations to investors.

We have encountered numerous other entities that cite this very risk as a reason why they are unable to acquire and hold digital assets. While we believe that accounting rules should certainly be considered in making business decisions, the accounting rules should not be a determining factor that causes entities to eschew pursuing strategies that are otherwise in the best interests of their business and stockholders.

More broadly, technological change is influencing all facets of business worldwide. We are already seeing other countries, including Canada and Japan, embrace digital monetary networks and their

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accounting standard setting bodies are similarly taking up projects to address the shortfalls of the existing accounting treatment afforded digital assets. We believe it is important to encourage U.S.-based corporations, financial institutions, and technology companies to participate in financial innovation in a responsible and transparent fashion to foster U.S. based innovation and, to maintain U.S. market leadership in the financial sector.

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We have greatly appreciated the opportunity to provide feedback to the FASB on its future standard-setting agenda. We continue to believe the speed at which digital assets are being adopted into the mainstream warrant prioritization by the FASB in ensuring GAAP continues to be relevant in an increasingly digital world. MicroStrategy remains committed to supporting the FASB and welcomes future opportunities to provide additional resources and engage in any dialogue that may aid in FASB's decision-making process.

Respectfully,

Phong Le
President & Chief Financial Officer
MicroStrategy Incorporated