

Memorandum

TCES – SFFAS 3

November 17, 2023

To: Members of the Board
From: Josh R. Williams, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Seized and Forfeited Digital Assets** (Topic D)

INTRODUCTION

At the October 2023 meeting, the Board unanimously supported moving forward with a draft Technical Bulletin (TB) that would clarify and elaborate on seized and forfeited property guidance in SFFAS 3, *Accounting for Inventory and Related Property* to address digital assets. All members generally agreed that the guidance would help reporting entities apply the existing SFFAS 3 reporting requirements to an increasingly material amount of seized and forfeited digital assets.

For this meeting, staff is proposing minor updates to the TB guidance along with basis for conclusion updates based on member feedback. Staff is requesting that the Board approve the proposed updates.

REQUEST FOR FEEDBACK BY December 7, 2023

Prior to the Board's December meeting, please review the attached draft TB and accompanying analysis and respond to the questions by December 7, 2023.

Please submit responses to Josh Williams at WilliamsJR@fasab.gov with a cc to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board feedback, staff will update the draft TB proposal as needed. Staff plans to propose a pre-ballot draft exposure draft to the Board during the February 2024 meeting.

ATTACHMENTS

1. Staff Analysis
2. Working draft: Technical Bulletin 202X-X, *Seized and Forfeited Digital Assets*, tracked changes version

3. Working draft: Technical Bulletin 202X-X, *Seized and Forfeited Digital Assets*, clean version

Staff Analysis

Digital Assets

November 17, 2023

CONTEXT

Background

A reporting entity has approached staff multiple times in recent years with issues analogizing and applying existing seized and forfeited property guidance from paragraphs 57 through 78 of SFFAS 3, *Accounting for Inventory and Related Property* to an increasingly material amount of seized and forfeited digital assets. The Board has never issued reporting guidance for digital assets.

During the April 2023 Board meeting, some members were open to considering issuing a Technical Bulletin (TB) to narrowly address the issues identified by staff. Staff then began coordinating with a working group to draft a TB for the Board's consideration. During the August 2023 meeting, the Board added this effort as a "Technical Clarifications of Existing Standards" project.

During the October 2023 meeting, staff proposed a draft TB that would clarify and elaborate upon seized and forfeited property guidance in SFFAS 3 to address digital assets. Specifically, the TB would clarify that reporting entities should treat central bank digital currencies as monetary property and all other digital assets (cryptocurrencies, stablecoins, non-fungible tokens, etc.) as nonmonetary property when applying SFFAS 3. The TB would also provide clarifying guidance for measuring market value and applying SFFAS 3 disclosure requirements for seized and forfeited digital assets.

During the meeting, two representatives from the Department of Justice (DOJ) provided the Board an overview of the seizure and forfeiture process for digital assets and explained that digital asset seizures and forfeitures have become material to the Federal Bureau of Investigation and Asset Forfeiture Fund financial statements and would likely become more material for DOJ in the future as digital assets become more prevalent. DOJ stated that it strongly supports the draft TB because it would establish and clarify reporting requirements for seized and forfeited digital assets in GAAP and would ensure reporting consistency if there were a change in auditor or agency management in the future.

The Board unanimously supported moving forward with the TB. All members generally agreed that the guidance would help reporting entities apply the existing SFFAS 3 reporting requirements to an increasingly material amount of seized and forfeited digital assets. Some members suggested minor edits to the TB and requested that staff address a few points of clarification in the basis for conclusions (BFC).

Research

Staff coordinated with DOJ on the proposed TB edits and BFC language that are based on Board feedback from the October 2023 meeting. Staff primarily referenced the Topic C staff analysis and its sources from the October 2023 Board meeting for the proposed updates. The primary external sources that staff referenced are:

- Economic Report of the President, Chapter 8: *Digital Assets: Relearning Economic Principles*, March 2023
- Executive Order 14067, *Ensuring Responsible Development of Digital Assets*, Section 9(b), March 2022
- FASB Exposure Draft, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), *Accounting for and Disclosure of Crypto Assets*, March 23, 2023
- IRS Digital Assets, *Definition of Digital Assets*, <https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets>
- McKinsey & Company, *What is central bank digital currency (CBDC)?*, March 1, 2023, <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-central-bank-digital-currency-cbdc>

RECOMMENDATIONS AND ANALYSES

Based on Board feedback from the October 2023 meeting, staff is recommending:

- Minor edits to the draft TB authoritative guidance
- BFC language to clarify the Board's intent and thoughts behind the TB guidance

Attachment 2 provides the proposed updates in tracked changes and Attachment 3 provides a clean version of the proposed TB for the Board's consideration.

RECOMMENDATION

Edits to draft TB authoritative guidance

Based on Board feedback, staff is recommending the following edits to the proposed TB:

- Moved footnotes 2 and 3 referencing the 2023 Economic Report of the President and Executive Order 14067, respectively to the BFC
- Switched the order of paragraphs 17 and 18

- In the new paragraph 18, updated the explanation for why the TB does not consider digital assets, other than central bank digital currencies, real or fiat money and provided a footnote clarifying how the reporting guidance applies to central bank digital currencies that may not have “store of value” monetary characteristics
- Provided a few grammatical updates in paragraph 23
- In paragraph 24, removed “conclusively” and replaced “without difficulty” with “with reasonable effort”
- In paragraph 28, replaced “reasonably determine” with “readily determine”
- Defined “fiat money” in the glossary section

The following analysis will explain the context and reasoning for the proposed edits. Staff does not believe that any of the edits alter the overall TB guidance that staff proposed to the Board in the October 2023 meeting. Attachment 2 contains the draft TB with these edits in tracked changes.

ANALYSIS

Footnotes 2 and 3

In the draft TB that staff proposed during the October 2023 meeting, paragraph 8 referenced the 2023 Economic Report of the President and paragraph 18 referenced Executive Order 14067. Staff still believes that these two references are important to the TB as they provided staff with fundamental information for digital assets, crypto assets, and central bank digital currencies when drafting the TB. However, staff believes it is more appropriate to reference these sources in the BFC to provide context for the Board’s decisions when developing the authoritative guidance in the TB.

Paragraph 18

Paragraph order

During the October 2023 meeting, one member suggested switching the order of paragraphs 17 and 18 in the TB so that the guidance would more effectively address whether digital assets represented monetary or nonmonetary property for the purposes of applying SFFAS 3. The proposed edit would result in the TB first addressing why reporting entities should treat central bank digital currencies as monetary property in paragraph 17 and then address why reporting entities should treat all other digital assets as nonmonetary property in paragraph 18.

Monetary characteristics of digital assets

During the October 2023 meeting, one member suggested removing “coin and paper money” from paragraph 18 when explaining why the TB does not consider digital assets, other than central bank digital currencies, real or fiat money because the TB implies that central bank digital currencies are generally considered fiat money even though they are not physical coin or paper money. Another member questioned if the explanation needed to use both terms “sovereign nation” and “central bank” when explaining why most digital assets are not real or fiat money.

Staff considered these suggestions to propose the following in paragraph 18:

Except for central bank digital currencies, digital assets are not generally considered real (or fiat) money because they are not issued and backed by a government entity.

Staff believes the proposed edits streamline the guidance to effectively identify key reasons why reporting entities should treat most digital assets as nonmonetary property.

Central bank digital currencies without “store of value” properties

Paragraph 18 of the draft TB explains that ...*digital assets, other than central bank digital currencies do not typically possess monetary characteristics. That is, they are not effective as a unit of account, medium of exchange, or store of value.* During the October 2023 meeting, one member suggested that the TB implies that central bank digital currencies always possess typical monetary characteristics and suggested that the TB clarify guidance for central bank digital currencies that may not be effective as a store of value.

Staff researched multiple sources to determine how the TB could best address this issue. The 2023 Economic Report of the President states that central bank digital currencies, like sovereign currency, is a liability of a central bank and is similar to physical cash. The report also states that not all sovereign currencies possess features of money and provides an example in which Zimbabwe’s currency lost its role as a store of value in 2007 when inflation rose to over 66,000 percent. In this case, consumers and firms shifted toward the widespread use of other sovereign currencies, which effectively replaced Zimbabwe’s currency.

Furthermore, McKinsey & Company¹ and the Atlantic Council² describe central bank digital currencies as digital currencies issued by central banks and explains that their value is linked to the issuing country’s official currency. Staff believes that central bank digital currencies typically present as digital forms of a sovereign nation’s official

¹ McKinsey & Company, *What is a central bank digital currency (CBDC)*, March 1, 2023, <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-central-bank-digital-currency-cbdc>

² The Atlantic Council is a nonpartisan organization that, among other things, tracks central bank digital currencies around the world - <https://www.atlanticcouncil.org/cbdctracker/>

currency. Therefore, staff proposes that the TB include a footnote to paragraph 18 that states:

It is possible for a government's fiat money, whether in physical or digital form, to lose its store of value role due to economic and geopolitical factors, such as hyperinflation. When applying this guidance, reporting entities should treat foreign central bank digital currencies as monetary instruments in the same way they would a foreign government's physical fiat currency.

Staff believes this footnote will effectively explain that reporting entities should treat central bank digital currencies as monetary instruments the same they would a foreign government's physical currency³ when applying the SFFAS 3 seized and forfeited property guidance. Staff is not aware of central banks issuing or planning to issue any other types of digital assets besides central bank digital currencies.

Paragraphs 23 and 24 – Market Value

Paragraph 24

During the October 2023 meeting, some members suggested replacing the phrase “without difficulty” with “with reasonable effort” in paragraph 24 of the TB when explaining how the SFFAS 3 term “readily determinable” should apply to measuring a market value for digital assets. The members were concerned that “without difficulty” was a term that the Board had not previously used in guidance and preferred to use a more common term for explaining the level of effort reporting entities should take for measuring market value.

Another member questioned if paragraph 24 needed to use the term “conclusively” when describing the meaning of the term “readily determinable”. After further review, staff believes the TB guidance does not need the word “conclusively” and may confuse readers with determining the level of certainty needed for measuring a market value for digital assets. Therefore, staff proposes that the first sentence in paragraph 24 state:

“Readily determinable” generally means that a market value can be established with reasonable effort.

The overall point of paragraph 24 is to instruct reporting entities to only report a market value for seized and forfeited digital assets if they can determine with reasonable effort that a publicly observable active market exists for the specific digital asset in question. Staff does not believe the word “conclusively” is necessary in this paragraph.

Paragraph 23

Upon reviewing paragraph 24, staff decided to propose very minor edits to paragraph 23 so that paragraphs 23 and 24 of the TB more distinctly address different aspects of

³ Paragraph 84 of SFFAC 2, *Entity and Display* and paragraph 27 of SFFAS 1, *Accounting for Selected Assets and Liabilities* refer to foreign currencies as cash or other monetary property.

SFFAS 3, paragraph 63⁴ to clarify reporting guidance for how and when to report market value for digital assets. Paragraph 23 describes a publicly observable active market and instructs reporting entities to report a market value for seized and forfeited digital assets based on a publicly observable active market. Whereas paragraph 24 then explains how to apply the term “readily determinable” from SFFAS 3 and to only report a market value if a reporting entity can determine with reasonable effort that a publicly observable active market exists for the specific digital asset.

Paragraph 28

Paragraph 28 of the TB addresses SFFAS 3 disclosure requirements for seized and forfeited digital assets. Upon further review, staff proposes replacing “reasonably determine” with “readily determine” so that paragraph 28 uses consistent terms with paragraph 63 of SFFAS 3 and paragraph 24 of this TB.

Fiat money definition

During the October 2023 meeting, one member suggested that the TB glossary define fiat money since the TB uses the term in the authoritative guidance. Staff proposes the following definition for the glossary:

Fiat money is currency that is issued and backed by a government entity as legal tender. The value of fiat money is derived from supply and demand as a medium of exchange and the stability of the government backing it. This differs from money that is backed by a tangible commodity, such as gold, that sets the standard of its value.

Staff referenced multiple sources on the internet to develop this definition. Staff believes this definition accurately explains fiat money and would help readers understand why the TB categorizes central bank digital currencies as monetary property and all other digital assets as nonmonetary property.

Staff recommendation

DOJ did not note any concerns regarding the proposed edits. Staff recommends that the Board approve the proposed TB edits.

Question for the Board:

1. Do members support staff’s proposed edits to the authoritative guidance in the draft TB?

⁴ SFFAS 3, paragraph 63 states “Valuation. Seized property shall be valued at its market value⁶ when seized or, if market value cannot be readily determined, as soon thereafter as reasonably possible. Market value shall be based on the value of the property assuming an active market exists for the property. If no active market exists for the property in the general area in which it was seized, a value in the principal market nearest the place of seizure shall be used.”

RECOMMENDATION

BFC updates

Based on Board feedback and working group discussions, staff is recommending updates to the BFC that address the following:

- Paragraphs A4 - A5: Provide a summary of staff's research efforts with the working group and address the reasons a TB is appropriate to address the identified guidance issues
- Paragraphs A6 - A8: Expand on the TB's description of digital assets
- Paragraphs A9 - A13: Further explain why the TB characterizes central bank digital currencies as monetary property and all other digital assets as nonmonetary property for purposes of applying the guidance in SFFAS 3

The following analysis will explain the context and reasoning for the proposed BFC updates. Attachment 2 contains the draft TB with these BFC updates in tracked changes. Staff also provided a few grammatical updates in paragraphs A2 and A3.

ANALYSIS

Paragraphs A4 – A5

Paragraph A4 explains that staff coordinated with a working group that included both preparers and auditors to identify issues with applying SFFAS 3 guidance to digital assets and draft the TB proposal for the Board. Paragraph A5 explains why the Board believes the TB is an appropriate pronouncement to clarify existing seized and forfeited property in SFFAS 3 for digital assets. Staff believes these two paragraphs effectively expand upon the history of the project in the previous BFC paragraphs (A1-A3) and explain the purpose of the TB proposal.

Paragraphs A6 – A8

During the October 2023 meeting, some members suggested that the BFC explain how digital assets operate as part of a complex and interconnected digital ecosystem. The proposed BFC paragraphs primarily reference the 2023 Economic Report of the President to further explain the characteristics of digital assets as well as crypto asset and central bank digital currency subcategories.

Additionally, the proposed paragraphs explain that there is a wide range of different types of digital assets that a reporting entity could potentially seize and that the TB does not specifically exclude any type of digital asset from applying to the seized and forfeited guidance in SFFAS 3. Staff believes these proposed paragraphs further explain the characteristics of digital assets and effectively explains the type of property that the TB addresses.

Paragraphs A9 – A13

During the October 2023 meeting, some members suggested that the BFC further explain why the TB categorizes central bank digital currencies as monetary property and all other digital assets as nonmonetary property. The proposed BFC paragraphs primarily reference the 2023 Economic Report of the President and Executive Order 14067 to explain in more detail why the TB considers central bank digital currencies to generally possess monetary characteristics and why all other digital assets do not.

During the October 2023 meeting, one Board member also suggested that the BFC compare the TB's monetary versus nonmonetary position to the scope in FASB's ASC 350-60, Intangibles – Goodwill and Other – Crypto Assets, *Accounting for and Disclosure of Crypto Assets*. Therefore, the proposed paragraphs explain that it appears that the FASB guidance would not apply to fiat currencies and does not appear to have considered central bank digital currencies. Staff notes however that the FASB crypto asset guidance has not yet been issued. Staff expects FASB to issue the guidance in December 2023.

Staff believes the proposed BFC paragraphs would effectively explain the TB's position to categorize central bank digital currencies as monetary property and all other digital assets as nonmonetary property solely for the purpose of applying SFFAS 3.

Staff recommendation

Staff recommends that the Board approve the proposed BFC updates.

Question for the Board:

2. Do members support staff's proposed BFC language in the draft TB?

Question for the Board:

3. Do members have any further feedback or questions on the draft TB?

NEXT STEPS

Pending the Board's feedback staff will update the draft TB as needed. Staff plans to propose a pre-ballot draft exposure draft to the Board during the February 2024 meeting.



Tracked Change Version

SEIZED AND FORFEITED DIGITAL ASSETS

Technical Bulletin 202X-X

Draft Exposure Draft

Public comments are not requested on this draft.

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
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September XX, 2023

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Technical Bulletin, *Seized and Forfeited Digital Assets*, are requested. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by XXX X, 2024.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to fasab@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document in the Federal Register and in FASAB's newsletter.

Sincerely,

Pending

Monica R. Valentine
Executive Director

SUMMARY

WHAT GUIDANCE IS BEING PROPOSED?

This Technical Bulletin (TB) would clarify existing standards for seized and forfeited digital assets. Statement of Federal Financial Accounting Standards (SFFAS) 3, *Accounting for Inventory and Related Property* provides guidance for seized and forfeited property. However, guidance is needed to clarify the existing reporting requirements to the unique characteristics of digital assets that the Board did not consider when developing SFFAS 3.

Specifically, this TB clarifies that SFFAS 3 requirements in paragraphs 57 - 78 apply to seized and forfeited digital assets. The TB further clarifies that, with the exception of central bank digital currencies, reporting entities should treat digital assets as nonmonetary property when applying the requirements of SFFAS 3. This TB also provides clarifying guidance for measuring market value and applying SFFAS 3 disclosure requirements for seized and forfeited digital assets.

This TB facilitates consistent accounting and reporting of seized and forfeited property in accordance with generally accepted accounting principles. This TB also reduces preparer burden and improves user benefits associated with seized and forfeited digital assets financial reporting.

MATERIALITY

The provisions of this proposed Technical Bulletin would not need to be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

¹Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

TABLE OF CONTENTS

Summary.....	1
Questions for Respondents.....	3
Proposed TECHNICAL GUIDANCE	4
Scope.....	4
Definitions and applicability.....	4
Reporting considerations	5
Measurement.....	6
Disclosure requirements	7
Effective Date.....	7
Appendix A: Basis for Conclusions.....	8
Appendix B: Abbreviations.....	11
Appendix C: Glossary	12

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Technical Bulletin (TB) before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed TB. Because FASAB may modify the proposals before a final TB is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. The Board especially appreciates comments that include the reasons for your views.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366.

All responses are requested by XXX X, 20XX.

- QFR1.** Do you generally support the proposed TB as a whole? Please provide reasons for your views.
- QFR2.** Are there specific aspects of the proposed TB that you disagree with? If so, please explain the reasons for your positions, the paragraph number(s), and/or topic area(s) of the proposal that are related to your positions, and any alternatives you propose and the basis for such alternatives.
- QFR3.** Do any ambiguous areas remain that could lead to challenges with implementing the requirements? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.
- QFR4.** Are there specific aspects of this proposal that you otherwise wish to provide comments on?
- SMC1.** ~~Paragraph XX of the TB requires that....~~

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. **What reporting entities are affected by this Technical Bulletin (TB)?**
2. This TB applies to reporting entities that present general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
3. **What accounting practices are addressed in this TB?**
4. This TB provides guidance to address areas not directly covered in existing Statements by clarifying guidance for accounting for and reporting of seized and forfeited digital assets. Reporting guidance for seized and forfeited property is currently addressed in paragraphs 57 - 78 of SFFAS 3, *Accounting for Inventory and Related Property*. However, the Board determined that additional guidance was needed to clarify the existing reporting requirements to the unique characteristics of digital assets that the Board did not consider when developing SFFAS 3.
5. **What is excluded from this TB?**
6. This TB does not apply to any digital asset transactions other than for seized and forfeited property transactions, as addressed by SFFAS 3, paragraphs 57-78.

DEFINITIONS AND APPLICABILITY

7. **What are digital assets?**
8. Digital assets are electronic representations of value and operate as part of a complex and interconnected digital ecosystem.² Crypto assets, to include cryptocurrencies, are a common subset of digital assets that use cryptographic techniques and distributed ledger technology. Digital assets also include but are not limited to stablecoins, non-fungible tokens, central bank digital currencies, security tokens, and privacy coins.
9. **How do digital assets apply to seized and forfeited property in the federal government?**
10. Paragraph 59 of SFFAS 3 defines seized property as “property of others in the actual or constructive possession of the custodial agency.” Seized property may include digital assets that the government has taken possession of, typically in consequence of an alleged violation of public law. Some reporting entities deal with a wide range of seized and forfeited digital assets.
11. Paragraph 68 of SFFAS 3 defines forfeited property as “(1) property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and

²-Economic Report of the President, Chapter 8: *Digital Assets: Relearning Economic Principles*, March 2023

(3) unclaimed and abandoned merchandise.” Seized digital assets are generally considered forfeited when title has passed to the U.S. government. Typically, the forfeited digital assets are sold for monetary proceeds.

REPORTING CONSIDERATIONS

12. Should reporting entities treat seized and forfeited digital assets as monetary or nonmonetary property when applying reporting guidance in SFFAS 3?

13. SFFAS 3 provides different reporting requirements for seized and forfeited property based on if the property in question is considered monetary or nonmonetary.

14. Paragraph 61 of SFFAS 3 states, “Seized monetary instruments shall be recognized as seized assets when seized. In addition, a liability shall be established in an amount equal to the seized asset value.” Paragraph 62 of SFFAS 3 states, “Seized property other than monetary instruments shall be disclosed in the footnotes.”

15. Paragraph 69 of SFFAS 3 states, “Monetary instruments shall be reclassified from seized monetary instruments to forfeited monetary instruments when forfeited...When the asset is recorded, revenue shall be recognized in an amount equal to the value of the monetary instrument and the associated liability for possible remittance shall be removed.” Paragraph 70 of SFFAS 3 addresses recognition of forfeited nonmonetary property by stating “property shall be recorded with an offsetting deferred revenue when forfeiture judgment is obtained.” Meanwhile paragraph 71 states, “Revenue from the sale of property shall be recognized when the property is sold.”

16. For purposes of applying the seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3, reporting entities should treat central bank digital currencies as monetary instruments and treat all other digital assets as nonmonetary property.

17. Central bank digital currencies are a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank.³ Therefore, central bank digital currencies are typically considered official digital forms of government-backed money that essentially serves the same purposes as physical cash.

~~17.18.~~ Except for central bank digital currencies, digital assets are not generally considered real (or fiat) ~~money~~currency because they are not ~~the coin and paper money of a sovereign nation and are not~~ issued and backed by a government ~~entity's central bank~~. Additionally, digital assets, other than central bank digital currencies do not typically possess monetary characteristics. That is, they are not effective as a unit of account, medium of exchange, or store of value⁴.

³ Executive Order 14067, Ensuring Responsible Development of Digital Assets, Section 9(b), March 2022

⁴ It is possible for a government's fiat money, whether in physical or digital form, to lose its store of value role due to economic and geopolitical factors, such as hyperinflation. When applying this guidance, reporting entities should treat foreign central bank digital currencies as monetary instruments in the same way they would a foreign government's physical fiat currency. Economic Report of the President, Chapter 8: Digital Assets: Relearning Economic Principles, March 2023

~~18.1. Central bank digital currencies are a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank.⁵ Therefore, central bank digital currencies are typically considered official digital forms of government-backed money that essentially serves the same purposes as physical cash.~~

MEASUREMENT

19. Are there special considerations with determining market value for seized and forfeited digital assets?

20. Some reporting entities have raised concerns about whether management can accurately measure market value for digital assets. Many forms of digital assets are not bought or sold in a typical market. Furthermore, digital asset markets that do exist are sometimes not well established or regulated and could therefore quote volatile and unreliable values. Reporting inaccurate and/or unreliable market values for seized and forfeited digital assets could result in financial information that is misleading and/or lacks relevance.
21. Paragraph 63 of SFFAS 3 states, “Seized property shall be valued at its market value⁶ when seized or, if market value cannot be readily determined, as soon thereafter as reasonably possible. Market value shall be based on the value of the property assuming an active market exists for the property.”⁶
22. Footnote 6 of SFFAS 3 states, “Market value” is the estimated amount that can be realized by disposing of an item through arm’s length transactions in the marketplace or the price (usually representative) at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time. For investments in marketable securities, the term refers to the per-unit market price of a security times the number of units of that security held.”
23. For purposes of applying the seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3, reporting entities should ~~only~~ report a market value for seized ~~and/or~~ forfeited digital assets ~~based on~~ if a publicly observable active market ~~exists~~ for the specific digital asset. An active market is an established market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A publicly observable market is a market that is widely visible to anyone with a need-to-know.
24. “Readily determinable” generally means that a market value can be ~~conclusively~~ established with ~~out reasonable effort~~ difficulty. Due to the inherent volatility and risk associated with most digital asset markets, reporting entities should apply a conservative approach to measuring seized and forfeited digital assets and report a market value only if management can ~~conclusively~~ determine that a publicly observable active market exists for the specific digital asset. Management should apply judgment in determining the most appropriate publicly observable active market to reference for valuing each digital asset. Management could theoretically use different active markets for valuing different types of digital assets.
25. It is reasonable that it could require more time and effort to determine a market value for seized and forfeited digital assets than it would for seized or forfeited property associated

⁵ ~~Executive Order 14067, Ensuring Responsible Development of Digital Assets, Section 9(b), March 2022~~

⁶ SFFAS 3, paragraphs 69 - 70 also requires market value reporting for forfeited property.

with more liquid, regulated, and established markets. It is also reasonable that a market value cannot be readily determined for some seized and forfeited digital assets if a publicly observable active market does not exist.

26. The U.S. government does not currently have a central bank digital currency. Reporting entities should translate seized and forfeited foreign central bank digital currencies into U.S. dollars at the relevant exchange rate.

DISCLOSURE REQUIREMENTS

27. What information should reporting entities disclose about seized and forfeited digital assets?

28. Reporting entities should apply the disclosure requirements of paragraphs 66 and 78 of SFFAS 3 for seized and forfeited digital assets, respectively. If a reporting entity is not able to ~~readily~~**reasonably** determine a market value for the seized or forfeited digital asset pursuant to paragraphs 19 - 26 of this TB, the reporting entity should still apply the other SFFAS 3 disclosure requirements.

29. SFFAS 3 requires reporting entities to disclose the dollar value and quantity of seized and forfeited property by the type of property. SFFAS 3 does not require reporting entities to disclose specific quantitative or qualitative information about individual digital asset seizures or forfeitures.

EFFECTIVE DATE

30. The requirements of this TB are effective upon issuance.

The provisions of this Technical Bulletin need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

APPENDIX A: BASIS FOR CONCLUSIONS

The Federal Accounting Standards Advisory Board (FASAB) has authorized its staff to prepare Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's Rules of Procedures, as amended and restated through October 2010, and the procedures described in FASAB Technical Bulletin 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the proposed technical guidance section—not the material in this appendix—would govern the accounting for specific transactions, events, or conditions.

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- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 3, *Accounting for Inventory and Related Property* in 1993. Paragraphs 57-78 of SFFAS 3 provide reporting requirements for seized and forfeited property. The Board subsequently issued Technical Release 4, *Reporting on Non-Valued Seized and Forfeited Property* in 1999 to establish that an analysis of changes for all material non-valued seized property should be disclosed in the financial statement footnotes in the same manner as prescribed for non-valued forfeited property.
- A2. The Board FASAB had planned to deliberate reporting guidance needs for digital assets as part of the software technology project scope. However, as ~~the value and occurrence of~~ seized and forfeited digital assets have become more ~~significant~~ material in recent years, the Board has received several requests from reporting entities and auditors for further guidance and clarification on applying the existing seized and forfeited property reporting requirements in SFFAS 3 to new and unique characteristics of digital assets.
- A3. Digital assets were not originally contemplated when FASAB issued SFFAS 3 and the Board has never previously issued guidance pertaining to digital assets. The Board is not aware of any other significant uses of digital assets in the federal government. Some reporting entities have indicated purchasing an immaterial amount of ~~amount of~~ cryptocurrency for operational purposes.
- A4. Staff convened with a working group to draft and propose a Technical Bulletin for the Board's consideration. Staff consulted extensively with preparers and auditors that deal with seized and forfeited digital assets.

- A5. The Board agrees that in accordance with paragraph 4 of Technical Bulletin 2000-1, *Purpose and Scope for FASAB Technical Bulletins and Procedures for Issuance*, a Technical Bulletin is an appropriate publication to address the identified reporting issues. This proposed Technical Bulletin would clarify and elaborate upon seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3 to address digital assets. The guidance in this proposal applies only to seized and forfeited digital assets.
- A6. For this proposal, the Board referred to external sources to describe the characteristics and general nature of digital assets. The 2023 Economic Report of the President⁷ describes digital assets as electronic representations of value that operate as part of a complex and interconnected digital ecosystem. The report categorizes digital assets as either crypto assets or central bank digital currencies.
- A7. Crypto assets, such as cryptocurrencies, stablecoins, and non-fungible tokens, typically represent digital financial products or unique digital property that use cryptographic techniques and distributed ledger technology to process transactions and track ownership through decentralized networks. Central bank digital currencies are a form of digital money of a sovereign nation and act as legal tender, similar to physical cash. Unlike crypto assets, central bank digital currencies typically exist on a digital platform run by a central authority, such as a central bank, that settles transactions in real time.
- A8. Whether digital assets are categorized as crypto assets or central bank digital currencies, the Board believes they represent intangible forms of value in which ownership and transactions are tracked through decentralized or centralized digital networks. Some reporting entities deal with a wide range of different types of seized and forfeited digital assets. This proposal would not specifically exclude any type of digital asset from applying to the reporting requirements in SFFAS 3.
- A9. Other standard-setters, regulators, academics, and legislators often consider whether digital assets possess monetary properties or more closely relate to financial securities, derivatives, investments, intangible assets, or some combination thereof. However, this proposal only considers whether to categorize digital assets as monetary or nonmonetary property for the purposes of applying the reporting requirements in SFFAS 3.
- A10. Executive Order 14067⁸ defines central bank digital currencies as a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank. Furthermore, the 2023 Economic Report of the President and the Board of Governors of the Central Bank explains that central bank digital currencies are similar to cash. Central bank digital currencies essentially represent digital forms of fiat currency and resemble cash and other monetary assets as described in SFFAC 2, *Entity and Display* and SFFAS 1, *Accounting for Selected Assets and Liabilities*. Therefore, reporting entities should treat central bank digital currencies as monetary instruments when applying SFFAS 3.
- A11. Except for central bank digital currencies, research indicates that all other types of digital assets do not represent monetary value. This is primarily because digital assets, other than central bank digital currencies, are not issued by sovereign nation's central bank nor

⁷ Economic Report of the President, Chapter 8: *Digital Assets: Relearning Economic Principles*, March 2023

⁸ Executive Order 14067, *Ensuring Responsible Development of Digital Assets*, Section 9(b), March 2022

is their value backed by the stability and creditworthiness of the government entity issuing it.

A12. Furthermore, the 2023 Economic Report of the President describes how crypto assets (which are digital assets other than central bank digital currencies) are typically treated as speculative investments and do not serve typical monetary purposes as effectively as sovereign money. For example, crypto assets are not an effective unit of account because they do not offer benchmarks to compare the value of goods and services without first being converted to a fiat currency, such as the dollar. Additionally, crypto assets are not an effective medium of exchange due to the lack of firms that accept them as a form of payment and because crypto assets do not possess the same factors that give fiat money strength and legitimacy, such as backing by a sovereign nation's institutions and legal system. Finally, crypto assets do not typically represent stable stores of value due to their substantial market value volatility compared to fiat money. A monetary instrument should have a stable store of value to serve effectively as money.

A13. In 202X, FASB issued ASC 350-60, Intangibles – Goodwill and Other – Crypto Assets, Accounting for and Disclosure of Crypto Assets that provides fair value guidance for certain crypto assets. It appears that the scope of the FASB guidance would only apply to crypto assets that meet FASB's definition of an intangible asset and would not apply to fiat currencies or securities. It does not appear that the guidance specifically considers whether certain digital assets, such as central bank digital currencies, possess "medium of exchange", "store of value", or any other monetary characteristics. However, this proposal should address how to categorize digital assets as monetary or nonmonetary property so preparers can accurately apply seized and forfeited property guidance from SFFAS 3 in a consistent manner.

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Digital asset

Digital assets are electronic representations of value and operate as part of a complex and interconnected digital ecosystem.

Crypto asset

Crypto assets are a common subset of digital assets that use cryptographic techniques and distributed ledger technology, such as blockchain.

Cryptocurrency

Cryptocurrency is a crypto asset that is promoted to be an alternative payment instrument.

Central bank digital currency

Central bank digital currencies are a type of digital asset that are a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank.

Fiat money

Fiat money is currency that is issued and backed by a government entity as legal tender. The value of fiat money is derived from supply and demand as a medium of exchange and the stability of the government backing it. This differs from money that is backed by a tangible commodity, such as gold, that sets the standard of its value.

Non-fungible tokens

Non-fungible tokens (NFTs) are crypto assets that are not interchangeable. Each NFT is unique and often contains a pointer to a digital object, such as an image file.

Privacy coins

Privacy coins are cryptocurrencies with enhanced features to reduce traceability.

Stablecoins

Stablecoins are crypto assets that are backed by a portfolio of underlying assets and claimed to have a stable exchange value with these assets.

Security tokens

Security tokens are digital forms of financial instruments that represent ownership in another asset, such as real estate or equity in a company.

Wrapped tokens

Wrapped tokens allow a digital asset on one blockchain to transfer to another blockchain.

WORKING DRAFT

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Clean Version

SEIZED AND FORFEITED DIGITAL ASSETS

Technical Bulletin 202X-X

Draft Exposure Draft

Public comments are not requested on this draft.

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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September XX, 2023

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Technical Bulletin, *Seized and Forfeited Digital Assets*, are requested. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by XXX X, 2024.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to fasab@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document in the Federal Register and in FASAB's newsletter.

Sincerely,

Pending

Monica R. Valentine
Executive Director

SUMMARY

WHAT GUIDANCE IS BEING PROPOSED?

This Technical Bulletin (TB) would clarify existing standards for seized and forfeited digital assets. Statement of Federal Financial Accounting Standards (SFFAS) 3, *Accounting for Inventory and Related Property* provides guidance for seized and forfeited property. However, guidance is needed to clarify the existing reporting requirements to the unique characteristics of digital assets that the Board did not consider when developing SFFAS 3.

Specifically, this TB clarifies that SFFAS 3 requirements in paragraphs 57 - 78 apply to seized and forfeited digital assets. The TB further clarifies that, with the exception of central bank digital currencies, reporting entities should treat digital assets as nonmonetary property when applying the requirements of SFFAS 3. This TB also provides clarifying guidance for measuring market value and applying SFFAS 3 disclosure requirements for seized and forfeited digital assets.

This TB facilitates consistent accounting and reporting of seized and forfeited property in accordance with generally accepted accounting principles. This TB also reduces preparer burden and improves user benefits associated with seized and forfeited digital assets financial reporting.

MATERIALITY

The provisions of this proposed Technical Bulletin would not need to be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

¹Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

TABLE OF CONTENTS

Summary.....	1
Questions for Respondents.....	3
Proposed TECHNICAL GUIDANCE	4
Scope.....	4
Definitions and applicability.....	4
Reporting considerations	5
Measurement.....	6
Disclosure requirements	7
Effective Date.....	7
Appendix A: Basis for Conclusions.....	8
Appendix B: Abbreviations	11
Appendix C: Glossary	12

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Technical Bulletin (TB) before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed TB. Because FASAB may modify the proposals before a final TB is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. The Board especially appreciates comments that include the reasons for your views.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366.

All responses are requested by XXX X, 20XX.

- QFR1.** Do you generally support the proposed TB as a whole? Please provide reasons for your views.
- QFR2.** Are there specific aspects of the proposed TB that you disagree with? If so, please explain the reasons for your positions, the paragraph numbers(s), and/or topic area(s) of the proposal that are related to your positions, and any alternatives you propose and the basis for such alternatives.
- QFR3.** Do any ambiguous areas remain that could lead to challenges with implementing the requirements? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.
- QFR4.** Are there specific aspects of this proposal that you otherwise wish to provide comments on?

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. **What reporting entities are affected by this Technical Bulletin (TB)?**
2. This TB applies to reporting entities that present general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
3. **What accounting practices are addressed in this TB?**
4. This TB provides guidance to address areas not directly covered in existing Statements by clarifying guidance for accounting for and reporting of seized and forfeited digital assets. Reporting guidance for seized and forfeited property is currently addressed in paragraphs 57 - 78 of SFFAS 3, *Accounting for Inventory and Related Property*. However, the Board determined that additional guidance was needed to clarify the existing reporting requirements to the unique characteristics of digital assets that the Board did not consider when developing SFFAS 3.
5. **What is excluded from this TB?**
6. This TB does not apply to any digital asset transactions other than for seized and forfeited property transactions, as addressed by SFFAS 3, paragraphs 57-78.

DEFINITIONS AND APPLICABILITY

7. **What are digital assets?**
8. Digital assets are electronic representations of value and operate as part of a complex and interconnected digital ecosystem. Crypto assets, to include cryptocurrencies, are a common subset of digital assets that use cryptographic techniques and distributed ledger technology. Digital assets also include but are not limited to stablecoins, non-fungible tokens, central bank digital currencies, security tokens, and privacy coins.
9. **How do digital assets apply to seized and forfeited property in the federal government?**
10. Paragraph 59 of SFFAS 3 defines seized property as “property of others in the actual or constructive possession of the custodial agency.” Seized property may include digital assets that the government has taken possession of, typically in consequence of an alleged violation of public law. Some reporting entities deal with a wide range of seized and forfeited digital assets.
11. Paragraph 68 of SFFAS 3 defines forfeited property as “(1) property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise.” Seized digital assets are generally considered

forfeited when title has passed to the U.S. government. Typically, the forfeited digital assets are sold for monetary proceeds.

REPORTING CONSIDERATIONS

- 12. Should reporting entities treat seized and forfeited digital assets as monetary or nonmonetary property when applying reporting guidance in SFFAS 3?**
13. SFFAS 3 provides different reporting requirements for seized and forfeited property based on if the property in question is considered monetary or nonmonetary.
14. Paragraph 61 of SFFAS 3 states, “Seized monetary instruments shall be recognized as seized assets when seized. In addition, a liability shall be established in an amount equal to the seized asset value.” Paragraph 62 of SFFAS 3 states, “Seized property other than monetary instruments shall be disclosed in the footnotes.”
15. Paragraph 69 of SFFAS 3 states, “Monetary instruments shall be reclassified from seized monetary instruments to forfeited monetary instruments when forfeited...When the asset is recorded, revenue shall be recognized in an amount equal to the value of the monetary instrument and the associated liability for possible remittance shall be removed.” Paragraph 70 of SFFAS 3 addresses recognition of forfeited nonmonetary property by stating “property shall be recorded with an offsetting deferred revenue when forfeiture judgment is obtained.” Meanwhile paragraph 71 states, “Revenue from the sale of property shall be recognized when the property is sold.”
16. For purposes of applying the seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3, reporting entities should treat central bank digital currencies as monetary instruments and treat all other digital assets as nonmonetary property.
17. Central bank digital currencies are a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank. Therefore, central bank digital currencies are typically considered official digital forms of government-backed money that essentially serves the same purposes as physical cash.
18. Except for central bank digital currencies, digital assets are not generally considered real (or fiat) money because they are not issued and backed by a government entity . Additionally, digital assets, other than central bank digital currencies do not typically possess monetary characteristics. That is, they are not effective as a unit of account, medium of exchange, or store of value².

² It is possible for a government’s fiat money, whether in physical or digital form, to lose its store of value role due to economic and geopolitical factors, such as hyperinflation. When applying this guidance, reporting entities should treat foreign central bank digital currencies as monetary instruments in the same way they would a foreign government’s physical fiat currency.

- 19. Are there special considerations with determining market value for seized and forfeited digital assets?**
20. Some reporting entities have raised concerns about whether management can accurately measure market value for digital assets. Many forms of digital assets are not bought or sold in a typical market. Furthermore, digital asset markets that do exist are sometimes not well established or regulated and could therefore quote volatile and unreliable values. Reporting inaccurate and/or unreliable market values for seized and forfeited digital assets could result in financial information that is misleading and/or lacks relevance.
21. Paragraph 63 of SFFAS 3 states, “Seized property shall be valued at its market value⁶ when seized or, if market value cannot be readily determined, as soon thereafter as reasonably possible. Market value shall be based on the value of the property assuming an active market exists for the property.”³
22. Footnote 6 of SFFAS 3 states, “Market value” is the estimated amount that can be realized by disposing of an item through arm’s length transactions in the marketplace or the price (usually representative) at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time. For investments in marketable securities, the term refers to the per-unit market price of a security times the number of units of that security held.”
23. For purposes of applying the seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3, reporting entities should report a market value for seized and forfeited digital assets based on a publicly observable active market for the specific digital asset. An active market is an established market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A publicly observable market is a market that is widely visible to anyone with a need-to-know.
24. “Readily determinable” generally means that a market value can be established with reasonable effort. Due to the inherent volatility and risk associated with most digital asset markets, reporting entities should apply a conservative approach to measuring seized and forfeited digital assets and report a market value only if management can determine that a publicly observable active market exists for the specific digital asset. Management should apply judgment in determining the most appropriate publicly observable active market to reference for valuing each digital asset. Management could theoretically use different active markets for valuing different types of digital assets.
25. It is reasonable that it could require more time and effort to determine a market value for seized and forfeited digital assets than it would for seized or forfeited property associated with more liquid, regulated, and established markets. It is also reasonable that a market value cannot be readily determined for some seized and forfeited digital assets if a publicly observable active market does not exist.

³ SFFAS 3, paragraphs 69 - 70 also requires market value reporting for forfeited property.

26. The U.S. government does not currently have a central bank digital currency. Reporting entities should translate seized and forfeited foreign central bank digital currencies into U.S. dollars at the relevant exchange rate.

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⁴ Economic Report of the President, Chapter 8: *Digital Assets: Relearning Economic Principles*, March 2023

⁵ Executive Order 14067, *Ensuring Responsible Development of Digital Assets*, Section 9(b), March 2022

is their value backed by the stability and creditworthiness of the government entity issuing it.

- A12. Furthermore, the 2023 Economic Report of the President describes how crypto assets (which are digital assets other than central bank digital currencies) are typically treated as speculative investments and do not serve typical monetary purposes as effectively as sovereign money. For example, crypto assets are not an effective unit of account because they do not offer benchmarks to compare the value of goods and services without first being converted to a fiat currency, such as the dollar. Additionally, crypto assets are not an effective medium of exchange due to the lack of firms that accept them as a form of payment and because crypto assets do not possess the same factors that give fiat money strength and legitimacy, such as backing by a sovereign nation's institutions and legal system. Finally, crypto assets do not typically represent stable stores of value due to their substantial market value volatility compared to fiat money. A monetary instrument should have a stable store of value to serve effectively as money.
- A13. In 202X, FASB issued ASC 350-60, Intangibles – Goodwill and Other – Crypto Assets, *Accounting for and Disclosure of Crypto Assets* that provides fair value guidance for certain crypto assets. It appears that the scope of the FASB guidance would only apply to crypto assets that meet FASB's definition of an intangible asset and would not apply to fiat currencies or securities. It does not appear that the guidance specifically considers whether certain digital assets, such as central bank digital currencies, possess "medium of exchange", "store of value", or any other monetary characteristics. However, this proposal should address how to categorize digital assets as monetary or nonmonetary property so preparers can accurately apply seized and forfeited property guidance from SFFAS 3 in a consistent manner.

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Digital asset

Digital assets are electronic representations of value and operate as part of a complex and interconnected digital ecosystem.

Crypto asset

Crypto assets are a common subset of digital assets that use cryptographic techniques and distributed ledger technology, such as blockchain.

Cryptocurrency

Cryptocurrency is a crypto asset that is promoted to be an alternative payment instrument.

Central bank digital currency

Central bank digital currencies are a type of digital asset that are a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank.

Fiat money

Fiat money is currency that is issued and backed by a government entity as legal tender. The value of fiat money is derived from supply and demand as a medium of exchange and the stability of the government backing it. This differs from money that is backed by a tangible commodity, such as gold, that sets the standard of its value.

Non-fungible tokens

Non-fungible tokens (NFTs) are crypto assets that are not interchangeable. Each NFT is unique and often contains a pointer to a digital object, such as an image file.

Privacy coins

Privacy coins are cryptocurrencies with enhanced features to reduce traceability.

Stablecoins

Stablecoins are crypto assets that are backed by a portfolio of underlying assets and claimed to have a stable exchange value with these assets.

Security tokens

Security tokens are digital forms of financial instruments that represent ownership in another asset, such as real estate or equity in a company.

Wrapped tokens

Wrapped tokens allow a digital asset on one blockchain to transfer to another blockchain.

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