

Memorandum

TCES – SFFAS 3

January 30, 2024

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

INTRODUCTION

At the December 2023 meeting, the Board further discussed and updated a draft Technical Bulletin (TB) that would clarify seized and forfeited property guidance in SFFAS 3, *Accounting for Inventory and Related Property* to address digital assets.

For this meeting, staff is proposing an exposure draft of the Seized and Forfeited Digital Assets TB for pre-ballot.

REQUEST FOR FEEDBACK BY February 14, 2024

Prior to the Board's February meeting, please review the attached pre-ballot TB and accompanying analysis and respond to the questions by February 14, 2024.

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 provide members a ballot draft following the February meeting for approval to send the exposure draft to stakeholders for public comment.

ATTACHMENTS

1. Staff Analysis
2. Pre-ballot Technical Bulletin 202X-X, *Seized and Forfeited Digital Assets* Exposure Draft – Clean Version
3. Pre-ballot Technical Bulletin 202X-X, *Seized and Forfeited Digital Assets* Exposure Draft - Tracked Version

Staff Analysis

Digital Assets

January 30, 2024

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 instruments 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) 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.

During the December 2023 meeting, the Board made several revisions to streamline and further clarify the authoritative guidance in the TB but did not substantially update

the guidance that staff originally proposed during the October 2023 meeting. The Board also updated the basis for conclusions to further describe the characteristics of digital assets and explain why the TB proposal categorizes central bank digital currencies as monetary instruments and all other digital assets as nonmonetary property for purposes of applying the guidance in SFFAS 3.

Research

Staff coordinated with DOJ on a few questions that a Board member proposed about the TB authoritative guidance during the December 2023 meeting. The draft TB has also gone through an editorial review. Staff will address these items later in the analysis.

RECOMMENDATIONS AND ANALYSES

Staff notes that there were no open Board requests or concerns regarding the TB when the December 2023 concluded. For this meeting, staff is proposing an exposure draft of TB 202X-X, *Seized and Forfeited Digital Assets* for pre-ballot along with the following recommendations to the Board.

1. Non-substantive edits to improve the grammar, format, and style of the guidance
2. Questions for respondents (QFRs) for the exposure draft
3. Ballot TB 202X-X, *Seized and Forfeited Digital Assets* ED for 45-day public comment

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

RECOMMENDATION 1

Suggested edits

Staff is recommending a few additional edits to the TB that improve the grammar, format, and style of the guidance but do not substantively affect the proposed guidance. The recommended edits include the following:

- In paragraph 15 - correcting a reference to an SFFAS 3 paragraph number
- In paragraph A10 - adding a footnote reference to a Federal Reserve report in the basis for conclusions
- Updating the glossary by removing a term that the TB guidance does not use and adding a glossary purpose statement
- Other grammar and format edits based on basic FASAB style conventions

Members can view the proposed edits in tracked changes in attachment 3.

ANALYSIS

Additional edits

The draft TB exposure draft has gone through an editorial review to prepare the document for pre-ballot. Staff believes the proposed edits conform the exposure draft to the proper formatting for a TB and improve the clarity and orderliness of the guidance. Staff does not believe any of the edits affect the meaning or intent of the proposed guidance.

In paragraph A10 of the TB, staff added a footnote to reference a report from the Board of Governors of the Federal Reserve System that the paragraph alludes to when explaining the characteristics of central bank digital currencies. Staff believes adding this reference reinforces the analysis in paragraph A10.

DOJ discussion

Staff reached out to DOJ to discuss a few questions that a member raised during the December 2023 meeting.

During the meeting, a member questioned if paragraph 23 of the TB should expand more on the guidance for measuring seized and forfeited digital assets based on a publicly observable active market. The member proposed, “A publicly observable market is a market that is widely visible to anyone and is predicated upon publicly available information about actual quoted market prices without adjustments.”

Staff and DOJ do not recommend this language because it would unnecessarily limit a reporting entity’s ability to measure a market value for some seized and forfeited digital assets. It is likely that reporting entities will use quoted prices to measure many of the more widespread types of cryptocurrencies, such as Bitcoin. However, that may not be the case for rarer types of digital assets, such as non-fungible tokens. DOJ indicated they support paragraph 23 as written and can use management judgment to apply the guidance to different seizure and forfeiture scenarios. Therefore, staff is not recommending any further edits to the measurement guidance in the TB.

During the December 2023 meeting, the member also questioned if the TB should include additional disclosure requirements for scenarios in which reporting entities are not able to determine a market value for seized or forfeited digital assets. The member suggested that reporting entities could discuss some challenges they faced in trying to measure market values for certain digital assets.

Staff believes the suggested disclosure would add additional disclosure requirements beyond what SFFAS 3 requires for all seized and forfeited property. Staff notes that SFFAS 3 already requires disclosing the method of valuation for seized and forfeited property and that the TB would apply those requirements to digital assets, including

ones for which reporting entities cannot determine a market value in accordance with the TB proposal.

Furthermore, DOJ stated they do not think the TB should add additional disclosure requirements beyond what SFFAS 3 already requires and does not recommend changing the TB from what was originally presented to the Board. Therefore, staff is not recommending any further edits to the note disclosure guidance.

Staff recommendation

Staff recommends that the Board approve the proposed edits.

Question for the Board:

1. Do members support staff's proposed edits? Do members have any further comments or questions regarding the pre-ballot TB 202X-X, *Seized and Forfeited Digital Assets*, exposure draft?

RECOMMENDATION 2

Exposure draft QFRs

Staff recommends the following five QFRs for the public to provide comments for the TB 202X-X, *Seized and Forfeited Digital Assets* exposure draft:

QFR1. *The proposed TB would clarify that reporting entities should treat central bank digital currencies as monetary instruments and treat all other digital assets (such as cryptocurrencies, stablecoins, non-fungible tokens, etc.) as nonmonetary property when applying the seized and forfeited property guidance in SFFAS 3, Accounting for Inventory and Related Property, to digital assets.*

Do you agree or disagree? Please provide the rationale for your answer.

QFR2. *The proposed TB would clarify that, for purposes of reporting market value in accordance with the seized and forfeited property guidance in SFFAS 3, reporting entities should translate seized and forfeited foreign central bank digital currencies to U.S. dollars at the relevant exchange rate and report a market value for all other seized and forfeited digital assets only if management can determine that a publicly observable active market exists for the specific digital asset.*

Do you agree or disagree? Please provide the rationale for your answer.

QFR3. *The proposed TB would clarify that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including for digital assets that reporting entities cannot determine a market value. The proposed TB would also clarify that SFFAS 3 does not require reporting entities to disclose specific information about individual digital asset seizures or forfeitures.*

Do you agree or disagree? Please provide the rationale for your answer.

QFR4. *Do any ambiguous areas remain that could lead to challenges with implementing the SFFAS 3 reporting requirements for seized and forfeited digital assets? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.*

QFR5. *Are there specific aspects of this proposal that you otherwise wish to provide comments on?*

The QFRs are on pages 3-4 of the attached pre-ballot exposure draft.

ANALYSIS

Staff believes QFRs 1-3 would effectively request public feedback on the primary points of clarification that the TB would address for applying SFFAS 3 seized and forfeited property guidance to digital assets:

- Clarifying guidance on whether to categorize seized and forfeited digital assets as monetary instruments or nonmonetary property
- Clarifying guidance on measuring market value for seized and forfeited digital assets
- Clarifying guidance on applying SFFAS 3 disclosure requirements for seized and forfeited digital assets

Furthermore, QFRs 4-5 would ask respondents to provide any additional feedback on the exposure draft. Specifically, QFR 4 requests information on other issues with applying the SFFAS 3 seized and forfeited property guidance to digital assets that the current TB proposal does not address. Finally, QFR 5 is meant as a general question that invites respondents to provide any additional comments not directly asked by the first four QFRs.

Staff recommendation

Staff believes the recommended QFRs will provide informative feedback on the proposed TB for the Board to consider in future deliberations. Staff recommends that the Board approve the recommended QFRs for the exposure draft.

Question for the Board:

2. Do members support staff's proposed QFRs for the pre-ballot TB 202X-X, *Seized and Forfeited Digital Assets*, exposure draft?

RECOMMENDATION 3**Ballot exposure draft for public comment**

Staff recommends that the Board issue the proposed TB exposure draft for a 45-day comment period.

ANALYSIS

Staff notes that all previously issued FASAB TBs included a 30-day exposure period for public comment. However, staff strategized a timeline for the remaining due process requirements for this project and believes that a 45-day public comment period is optimal for this exposure draft.

Even if staff issued the ED soon after the February meeting (pending Board approval) with a 30-day comment period, staff would not have sufficient time to analyze comments to present recommendations at the April 2024 meeting. Therefore, staff believes it would be beneficial to allow respondents 45 days to comment on the exposure draft and staff could present the analysis of comments to the Board at the June 2024 meeting.

Staff recommendation

Staff recommends that the Board ballot the TB 202X-X, *Seized and Forfeited Digital Assets* exposure draft for a 45-day public comment period.

Question for the Board:

3. Do members agree to ballot the TB 202X-X, *Seized and Forfeited Digital Assets*, exposure draft for a 45-day public comment period?

NEXT STEPS

Pending Board feedback, staff will provide members a ballot draft following the meeting for approval to send the exposure draft to stakeholders for a 45-day comment period.



SEIZED AND FORFEITED DIGITAL ASSETS

Technical Bulletin **202X-X**

Pre-ballot Draft Exposure Draft

CLEAN VERSION

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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March XX, 2024

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. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

Pending

Monica R. Valentine
Executive Director

EXECUTIVE 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 regarding the unique characteristics of digital assets that the Board did not consider when developing SFFAS 3.

Specifically, this TB would clarify that SFFAS 3 requirements in paragraphs 57-78 apply to seized and forfeited digital assets. The TB would further clarify 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 would also provide clarifying guidance for measuring market value and applying SFFAS 3 disclosure requirements for seized and forfeited digital assets.

This TB would facilitate consistent accounting and reporting of seized and forfeited property in accordance with generally accepted accounting principles. This TB would also reduce preparer burden and improve user benefits associated with financial reporting for seized and forfeited digital assets.

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.

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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 contact us at (202) 512-7350.

All responses are requested by XXX X, 2024.

QFR1. The proposed TB would clarify that reporting entities should treat central bank digital currencies as monetary instruments and treat all other digital assets (such as cryptocurrencies, stablecoins, non-fungible tokens, etc.) as nonmonetary property when applying the seized and forfeited property guidance in SFFAS 3, *Accounting for Inventory and Related Property*, to digital assets.

Do you agree or disagree? Please provide the rationale for your answer.

QFR2. The proposed TB would clarify that, for purposes of reporting market value in accordance with the seized and forfeited property guidance in SFFAS 3, reporting entities should translate seized and forfeited foreign central bank digital currencies to U.S. dollars at the relevant exchange rate and report a market value for all other seized and forfeited digital assets only if management can determine that a publicly observable active market exists for the specific digital asset.

Do you agree or disagree? Please provide the rationale for your answer.

QFR3. The proposed TB would clarify that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including for digital assets that reporting entities cannot determine a market value. The proposed TB would also clarify that SFFAS 3 does not require reporting entities to disclose specific information about individual digital asset seizures or forfeitures.

Do you agree or disagree? Please provide the rationale for your answer.

QFR4. Do any ambiguous areas remain that could lead to challenges with implementing the SFFAS 3 reporting requirements for seized and forfeited digital assets? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.

QFR5. Are there specific aspects of this proposal that you otherwise wish to provide comments on?

WORKING DRAFT

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 in conformance with generally accepted accounting principles, 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 for the unique characteristics of digital assets, which 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**² 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 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 Terms defined in the glossary are shown in **boldface** the first time they appear.

(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 whether 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 72 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, 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 serve the same purposes as physical cash.
18. Except for central bank digital currencies, digital assets are not considered **fiat money** because they are not issued by a government entity nor are their values backed by the stability and credit worthiness of a government entity. Additionally, digital assets, other than central bank digital currencies, do not typically possess all monetary characteristics. That is, they are not effective as a unit of account, medium of exchange, or store of value.³

³ 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.”⁴
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.
24. “Readily determined” 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 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. If available, management could 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.

⁴ Paragraphs 69-70 of SFFAS 3 also require 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.

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 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.

<p>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, <i>Objectives of Federal Financial Reporting</i>, chapter 7, titled <i>Materiality</i>, for a detailed discussion of the materiality concepts.</p>

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 August 2023, 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.

This Technical Bulletin may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any pronouncement that affects this Technical Bulletin. Within the text of the Technical Bulletins, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY

- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 3 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 had planned to deliberate reporting guidance needs for digital assets as part of the software technology project scope. However, as seized and forfeited digital assets have become more significant 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 cryptocurrency for operational purposes.
- A4. Staff convened a working group to draft and propose a TB 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 TB 2000-1, *Purpose and Scope for FASAB Technical Bulletins and Procedures for Issuance*, a TB is an appropriate publication to address the identified reporting issues. This proposed TB would clarify and elaborate upon seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3 to address the unique nature of 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 President* describes digital assets as electronic representations of value that operate as part of a complex and interconnected digital ecosystem.⁵ 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 does 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 have considered whether digital assets generally possess monetary properties or more closely relate to financial securities, derivatives, investments, intangible assets, or some combination thereof. This proposal does not address this issue but considers only whether to categorize digital assets as monetary or nonmonetary property for the purposes of applying the reporting requirements in SFFAS 3.
- A10. Executive Order 14067 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.⁶ Furthermore, the 2023 *Economic Report of the President* and the Board of Governors of the Federal Reserve System explain that central bank digital currencies are similar to cash.⁷ Central bank digital currencies essentially represent digital forms of fiat currency and resemble cash and other monetary assets as described in Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, and SFFAS 1, *Accounting*

⁵ Council of Economic Advisors, *2023 Economic Report of the President*, (March 2023), 237-272.

⁶ The White House, *Ensuring Responsible Development of Digital Assets*, Executive Order 14067 (March 9, 2022), section 9(b).

⁷ Board of Governors of the Federal Reserve System, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation* (January 2022).

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 a sovereign nation's central bank nor 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 entities that accept them as a form of payment and because crypto assets do not possess the same characteristics 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, which is required to serve effectively as money, due to their substantial market value volatility.

APPENDIX B: ABBREVIATIONS

FASAB	Federal Accounting Standards Advisory Board
QFR	Question for Respondents
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

WORKING DRAFT

APPENDIX C: GLOSSARY

The terms explained in Appendix C have specific application to this TB and may be useful in applying the guidance.

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.

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SEIZED AND FORFEITED DIGITAL ASSETS

Technical Bulletin **202X-X**

Pre-ballot Draft Exposure Draft

TRACKED VERSION

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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March XX, 2024

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. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

Pending

Monica R. Valentine
Executive Director

EXECUTIVE 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*,¹ provides guidance for seized and forfeited property. However, guidance is needed to clarify the existing reporting requirements regarding the unique characteristics of digital assets that the Board did not consider when developing SFFAS 3.

Specifically, this TB ~~would clarify~~clarifies that SFFAS 3 requirements in paragraphs 57-78 apply to seized and forfeited digital assets. The TB ~~would~~ further ~~clarify~~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 ~~would~~ also ~~provide~~s clarifying guidance for measuring market value and applying SFFAS 3 disclosure requirements for seized and forfeited digital assets.

This TB ~~would~~ facilitate consistent accounting and reporting of seized and forfeited property in accordance with generally accepted accounting principles. This TB ~~would~~ also ~~reduce~~s preparer burden and ~~improve~~s user benefits associated with financial reporting for 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.

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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 contact us at (202) 512-7350.

All responses are requested by XXX X, 2024.

QFR1. The proposed TB would clarify that reporting entities should treat central bank digital currencies as monetary instruments and treat all other digital assets (such as cryptocurrencies, stablecoins, non-fungible tokens, etc.) as nonmonetary property when applying the seized and forfeited property guidance in SFFAS 3, *Accounting for Inventory and Related Property*, to digital assets.

Do you agree or disagree? Please provide the rationale for your answer.

QFR2. The proposed TB would clarify that, for purposes of reporting market value in accordance with the seized and forfeited property guidance in SFFAS 3, reporting entities should translate seized and forfeited foreign central bank digital currencies to U.S. dollars at the relevant exchange rate and report a market value for all other seized and forfeited digital assets only if management can determine that a publicly observable active market exists for the specific digital asset.

Do you agree or disagree? Please provide the rationale for your answer.

QFR3. The proposed TB would clarify that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including for digital assets that reporting entities cannot determine a market value. The proposed TB would also clarify that SFFAS 3 does not require reporting entities to disclose specific information about individual digital asset seizures or forfeitures.

Do you agree or disagree? Please provide the rationale for your answer.

QFR4. Do any ambiguous areas remain that could lead to challenges with implementing the SFFAS 3 reporting requirements for seized and forfeited digital assets? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.

QFR5. Are there specific aspects of this proposal that you otherwise wish to provide comments on?

WORKING DRAFT

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 ~~for~~ the unique characteristics of digital assets, ~~which~~ 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**² 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 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 Terms defined in the glossary are shown in **boldface** the first time they appear.

(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 whether 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 72³ 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, 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 serve the same purposes as physical cash.
18. Except for central bank digital currencies, digital assets are not considered **fiat money** because they are not issued by a government entity nor are their values backed by the stability and credit worthiness of a government entity. Additionally, digital assets, other than central bank digital currencies, do not typically possess all monetary characteristics. That is, they are not effective as a unit of account, medium of exchange, or store of value.³

³ 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.”⁴
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.
24. “Readily determined” 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 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. If available, management could 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.

⁴ SFFAS 3, paragraphs 69-70 of SFFAS 3 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.

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 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~~ August 2023, 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.

This Technical Bulletin may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any pronouncement that affects this Technical Bulletin. Within the text of the Technical Bulletins, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY

- 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 had planned to deliberate reporting guidance needs for digital assets as part of the software technology project scope. However, as seized and forfeited digital assets have become more significant 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 cryptocurrency for operational purposes.
- A4. Staff convened 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 the unique nature of 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 President* describes digital assets as electronic representations of value that operate as part of a complex and interconnected digital ecosystem.⁵ 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 ~~does~~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 have considered whether digital assets generally possess monetary properties or more closely relate to financial securities, derivatives, investments, intangible assets, or some combination thereof. This proposal does not address this issue, but considers only whether to categorize digital assets as monetary or nonmonetary property for the purposes of applying the reporting requirements in SFFAS 3.
- A10. Executive Order 14067 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.⁶ Furthermore, the 2023 *Economic Report of the President* and the Board of Governors of the ~~Federal Reserve System~~~~Central Bank~~ explains that central bank digital currencies are similar to cash.⁷ Central bank digital currencies essentially represent digital forms of fiat currency and resemble cash and other monetary assets as described in Statement of Federal Financial Accounting Concepts 2, Entity and Display, and SFFAS 1,

⁵ Council of Economic Advisors, 2023 *Economic Report of the President*, Chapter 8: *Digital Assets: Relearning Economic Principles*, (March 2023), 237-272.

⁶ ~~The White House~~~~Executive Order 14067~~, *Ensuring Responsible Development of Digital Assets*, Executive Order 14067 (March 9, 2022), Section 9(b), ~~March 2022~~

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Accounting for Selected Assets and Liabilities. Therefore, reporting entities should treat central bank digital currencies as monetary instruments when applying SFFAS 3.

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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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