

## Memorandum

### TCES – SFFAS 3

May 23, 2024

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

#### INTRODUCTION

On March 4, 2024, the Board released for public comment an exposure draft on a proposed Technical Bulletin (TB) titled, *Seized and Forfeited Digital Assets*.

For this meeting, staff is providing an analysis of comment letter feedback along with recommended updates to the draft TB.

#### REQUEST FOR FEEDBACK BY June 5, 2024

**Prior to the Board's June meeting**, please review the attached draft TB and accompanying analysis and respond to the questions by June 5, 2024. Please submit responses to Josh Williams at [WilliamsJR@fasab.gov](mailto:WilliamsJR@fasab.gov) with a cc to Monica Valentine at [ValentineM@fasab.gov](mailto:ValentineM@fasab.gov).

#### NEXT STEPS

**Pending Board feedback**, staff will request Board ballot approval to issue the technical bulletin soon after the June meeting if there are no remaining edits or issues for the Board to deliberate. Otherwise, staff will provide an updated draft for further discussion at the August 2024 meeting.

#### ATTACHMENTS

1. Staff Analysis
2. QFR responses with staff analysis and notes
3. Technical Bulletin 202X-X, *Seized and Forfeited Digital Assets* - Clean Version
4. Technical Bulletin 202X-X, *Seized and Forfeited Digital Assets* - Tracked Version

# Staff Analysis

## Digital Assets

May 23, 2024

### CONTEXT

#### Background

A reporting entity has approached staff multiple times in recent years with issues 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 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 (e.g., cryptocurrencies, stablecoins, non-fungible tokens) as nonmonetary property when applying SFFAS 3. The proposed 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. The DOJ representatives stated that DOJ 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 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.

During the February 2024 meeting, the Board agreed to additional non-substantive edits to improve the grammar and format of the TB, five questions for respondents (QFR) for the exposure draft, and a 45-day comment period for the exposure draft.

### Exposure Draft Comment Letters

On March 4, 2024, the Board released an exposure draft of the proposed TB titled, *Seized and Forfeited Digital Assets*, with public comments due April 18, 2024.

The Board received 15 comment letters in response to the exposure draft from the following sources:

	FEDERAL	NON-FEDERAL	TOTAL
Associations		2	2
Auditors/Accounting Firms		2	2
Preparers and financial managers	11		11
Individuals			
Others			
<b>Total</b>	11	4	15

Staff requests that members read the comment letters prior to reviewing the staff analysis and recommendations. Comment letters are posted at <https://fasab.gov/TB-digital-assets-2024/>.

### Research

Staff reviewed comment letters, prior Board meeting materials, existing FASAB and other standard setter guidance, and other internet-based articles for this analysis. Staff research sources include:

- Board of Governors of the Federal Reserve System, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation* (January 2022)
- Council of Economic Advisors, *2023 Economic Report of the President*, (March 2023), 237-272.
- FASB Accounting Standards Update 2023-08-Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): *Accounting for and Disclosure of Crypto Assets*, December 2023
- SFFAC 2, *Entity and Display*, June 6, 1995

- SFFAS 1, *Accounting for Selected Assets and Liabilities*, March 30, 1993
- SFFAS 3, *Accounting for Inventory and Related Property*, October 27, 1993
- Technical Bulletin 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*, June 2000
- Technical Release 4, *Reporting on Non-Valued Seized and Forfeited Property*, July 31, 1999
- FASAB February 2024 Board Material - Topic C, Seized and Forfeited Digital Assets, January 30, 2024
- FASAB December 2023 Board Material - Topic D, Seized and Forfeited Digital Assets, November 17, 2023
- FASAB October 2023 Board Material – Topic C, Seized and Forfeited Digital Assets, October 4, 2023
- The White House, *Ensuring Responsible Development of Digital Assets*, Executive Order 14067 (March 9, 2022)

Additionally, staff followed-up with a few of the comment letter respondents to further understand some of their specific comments on the exposure draft. Staff will address these items in the analysis.

## RECOMMENDATIONS AND ANALYSES

The comment letters showed overwhelming support for each aspect of the proposed TB. Out of the 15 comment letters received, 11 respondents indicated general support while 4 respondents chose to provide no comment because seized and forfeited digital assets do not apply to them. None of the respondents voiced disagreement with any aspect of the proposed TB. Several respondents also provided thoughts and suggestions for the Board's consideration.

Based on the public feedback and staff's analysis, staff is recommending the following updates to the TB:

1. A minor edit to the authoritative guidance to improve the format of the TB
2. A minor edit to improve the Summary section of the TB
3. Updates to the basis for conclusions to address some of the public feedback

Staff will address the public responses for the five QFR's in the following analysis along with staff recommendations. Attachment 2 provides the public comments for the QFR's along with staff's analysis and response to the comments. Attachment 4 shows all recommended TB updates in tracked changes.

Staff has also provided conventional changes for converting exposure drafts to resolution-phase draft pronouncements. Members can view these edits as tracked changes in Attachment 4.

## QFR ANALYSIS AND STAFF RECOMMENDATIONS

### Responses to QFR 1

***QFR 1: 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 to digital assets.***

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

QFR 1 - Summary of Responses			
Resp. #	Agree	Disagree	N/A
1 - AGA FMSB	X		
2 - HUD/GNMA	X		
3 - GKA, P.C.	X		
4 - DHS	X		
5 - TEOAF	X		
6 - NASA			X
7 - SSA			X
8 - DOC	X		
9 - DOJ	X		
10 - DOD	X		
11 - DOE			X
12 - EY	X		
13 - GWSCPA	X		
14 - VA			X
15 - Treasury	X		
<b>Total</b>	<b>11</b>		<b>4</b>

Out of 15 responses received for QFR 1, 11 respondents agreed and 4 provided no comment because seized and forfeited digital assets do not apply to them. None of the respondents disagreed.

## Respondent Comments

Several respondents provided reasons for their agreement, to include:

- Guidance is appropriate and we note that it is consistent with guidance on digital assets issued by the IRS.
- Central bank digital currencies (CBDCs) are another form of official government backed money so they should be treated like cash and coins.
- Central bank digital currencies are the currency of the specific country, and it should be treated as monetary instruments as the U.S. does with its currency. All other cryptocurrencies are currency considered to be commodities and should be treated as such.
- The agency agrees that 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.
- The TB clearly defines central bank digital currencies (CBDC) and digital assets which agrees with the agency's current understanding of digital assets.
- The agency concurs with the treatment of central bank digital currencies as monetary and other digital assets as nonmonetary.
- Generally agree with the proposed clarification for the reasons stated in the ED.

Four respondents who agreed with QFR 1 also provided further comments:

- A. Respondent #4 indicated they would prefer a transition period for accounting for central bank digital currencies as monetary instruments. Staff followed up with the respondent to understand the concern. The respondent indicated that a particular office within the agency was concerned with the lack of U.S. infrastructure to use central bank digital currencies as cash. However, upon further thought, the respondent stated that the comment pertained to internal control and administrative matters, not financial reporting requirements and requested that the TB explicitly say that the guidance only addresses financial reporting requirements.

Staff does not recommend a transition period for the TB. The proposed TB would not require a federal entity to seize foreign central bank digital currencies or direct how to handle them internally. The guidance only clarifies how to report central bank digital currencies in accordance with existing SFFAS 3 requirements if an agency were to seize them. Staff also notes that no other respondent voiced

concern with the proposed TB being effective upon issuance, nor did anyone voice this concern when the working group developed the TB proposal.

- B. Respondent #9 recommended that paragraph 18 of the TB reference the definition of monetary instruments in 31 USC § 5312(a)(3) to further clarify the distinction between monetary instruments and nonmonetary property. This is a consideration that staff previously researched when the working group was developing the TB proposal.

Staff does not recommend that the TB reference 31 USC § 5312(a)(3) to distinguish which digital assets are monetary instruments. It is not customary for the Board to base GAAP on legal statutes and staff believes that doing so in this case would cause the TB guidance to not conform with the Board's existing framework on cash and other monetary assets in SFFAC 2 and SFFAS 1.<sup>1</sup> For example, 31 USC § 5312(a)(3) classifies certain types of stock and securities as monetary instruments whereas SFFAS 1 and SFFAC 2 considers securities as investments.

Furthermore, staff notes that paragraph 18 of the TB states that most digital assets are not fiat money and references the monetary characteristics considered for categorizing most digital assets as nonmonetary property- "That is, they are not effective as a unit of account, medium of exchange, or store of value." Additionally, paragraph A12 in the basis for conclusions further describes why most digital assets do not meet all these monetary characteristics.

As level B GAAP, the proposed TB explains why the Board considers which digital assets to classify as monetary or nonmonetary only for applying SFFAS 3 requirements. As explained in the October 2023 Board material, staff believes central bank digital currencies are a form of fiat money and classifying them as monetary would conform with the existing framework in SFFAC 2 and SFFAS 1.<sup>2</sup> However, the TB would not provide principal-based guidance on monetary characteristics for any other types of property.

- C. Respondent #12 noted that certain stablecoins, such as USD Coin, could be considered monetary instruments because they are highly liquid and easily convertible to cash. This is a consideration that staff previously researched when the working group was developing the TB proposal.

Staff does not recommend reporting stablecoins as monetary instruments. The TB glossary defines stablecoins as – "Stablecoins are crypto assets that are backed by a portfolio of underlying assets and claimed to have a stable exchange value with these assets." It is true that some stablecoin values are pegged to the value of the U.S. dollar. However, staff believes paragraphs 16-18

<sup>1</sup> Paragraph 84 of SFFAC 2 and paragraph 10 of SFFAS 1 refer to cash and other monetary assets as coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit, amounts on demand deposit with banks or other financial institutions, cash held in imprest funds, and foreign currencies.

<sup>2</sup> See paragraph A10 in the proposed TB.

of the proposed TB makes it clear why reporting entities should treat only central bank digital currencies as monetary instruments when applying SFFAS 3 requirements. Even stablecoins that peg to the U.S. dollar are not fiat money issued and backed by a government entity, nor are they currently effective as a unit of account or medium of exchange.<sup>3</sup> Furthermore, while stablecoins are designed to have a more stable store of value, research indicates they have previously lost their peg to the U.S. dollar.<sup>4</sup>

- D. Respondent #12 suggested that the TB use the term “property other than monetary instrument” instead of “nonmonetary property” since this is how SFFAS 3 primarily distinguishes between monetary instruments and property other than monetary instruments.

Staff recommends no changes to the TB because using the term “nonmonetary property” rather than “property other than monetary instrument” in the TB provides a more clear and efficient sentence structure for more effective guidance. Furthermore, the proposed TB references the relevant SFFAS 3 paragraphs when clarifying guidance for monetary versus nonmonetary property.

Additionally, SFFAS 3 uses different terms for categorizing seized and forfeited property that is not a monetary instrument, including the term “nonmonetary property”. Staff believes that federal entities commonly use the term “nonmonetary property” in the context of SFFAS 3 and notes that no other respondent voiced concern with the TB using the term “nonmonetary property”, nor did the working group express this concern when developing the proposal.

- E. Respondent #15 stated that preparers would need an authoritative source to help identify a list of valid central bank digital currencies. This is a consideration that staff previously researched when the working group developed the TB proposal.<sup>5</sup>

Staff does not recommend that the TB provide an authoritative list of central bank digital currencies. Paragraph 17 of the proposed TB provides a clear description of a central bank digital currency that several other federal sources use – “a form of government-backed digital money, denominated in the national unit of account that is a direct liability of the central bank.” The clarifying guidance in the TB would require management to apply judgement in determining whether a particular seized digital asset meets the description of a central bank digital currency. Staff agrees that some form of policy or other guidance could assist management with identifying central bank digital currencies. However, staff does not believe this TB should provide a list of central bank digital currencies because it would quickly become outdated and be impractical to keep current.

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<sup>3</sup> See paragraph A12 in the proposed TB.

<sup>4</sup> Moody's, *Stablecoins have been unstable. Why?*, October 18, 2023, [https://www.moodys.com/web/en/us/about/insights/data-stories/stablecoins-instability.html#:~:text=USD%20Coin%20\(USDC\)%2C%20the,Silicon%20Valley%20Bank%20\(SVB\).](https://www.moodys.com/web/en/us/about/insights/data-stories/stablecoins-instability.html#:~:text=USD%20Coin%20(USDC)%2C%20the,Silicon%20Valley%20Bank%20(SVB).)

<sup>5</sup> The Atlantic Council is a nonpartisan organization that, among other things, tracks central bank digital currencies around the world - <https://www.atlanticcouncil.org/cbdctracker/>

Staff Recommendation #1

Staff recommends no further changes to the TB guidance that clarifies that reporting entities should treat central bank digital currencies as monetary instruments and all other digital assets as nonmonetary property. This recommendation is based on the overwhelming respondent agreement with QFR 1 and staff's analysis of the respondent comments.

**Question for the Board:**

1. Does the Board agree with staff's recommendation related to QFR 1?

**Responses to QFR 2**

***QFR 2: 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.***

<b>QFR 2 - Summary of Responses</b>				
<b>Resp. #</b>	<b>Agree</b>	<b>Partially Agree</b>	<b>Disagree</b>	<b>N/A</b>
1 - AGA FMSB	X			
2 - HUD/GNMA	X			
3 - GKA, P.C.	X			
4 - DHS	X			
5 - TEOAF	X			
6 - NASA				X
7 - SSA				X
8 - DOC	X			
9 - DOJ	X			
10 - DOD	X			
11 - DOE				X
12 - EY		X		
13 - GWSCPA	X			
14 - VA				X
15 - Treasury	X			
<b>Total</b>	<b>10</b>	<b>1</b>		<b>4</b>

Out of 15 responses received for QFR 2, 10 respondents agreed, 1 respondent partially agreed, and 4 respondents provided no comment because seized and forfeited digital assets do not apply to them. None of the respondents disagreed.

### Respondent Comments

Several respondents provided reasons for their agreement, to include:

- We support the proposed guidance. Especially given the highly volatile nature of digital assets without active markets, we would expect the cost of developing estimates would exceed any benefits.
- The TB removes ambiguity as to whether reporting entities should attempt to estimate a market value for digital assets with unobservable and/or inactive markets.
- We agree and this follows the same concept as SFFAS 3.
- The agency agrees with the proposed language and acknowledges that it aligns with the Department's current valuation process used for foreign currency and other assets.
- The Department agrees that the proposed TB would clarify that, for 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.
- The agency concurs with reporting seized and forfeited currency at the U.S. dollar exchange rate and all other assets at market value, if a publicly observable market value exists.
- The agency generally agrees with the proposed clarification for the reasons stated in the ED.

As previously indicated, one respondent partially agreed with QFR 2.

- A. Respondent #12 agreed that central bank digital currencies should be translated into US dollars at the relevant exchange rate and that all other digital assets should be reported at market value. However, the respondent suggested that limiting reporting entities to only measuring market value for seized and forfeited digital assets based on a publicly observable active market could result in reporting and audit challenges if a particular digital asset market fluctuates between active and inactive. The respondent cited FASB's recent issuance on

accounting for and disclosure of crypto assets in which FASB decided to allow entities to measure values for crypto assets based on inactive markets.<sup>6</sup>

Staff previously addressed this issue in the October 2023 Board material. Staff does not recommend that the TB require reporting entities to measure seized or forfeited digital assets using inactive markets because it would conflict with the level A guidance in SFFAS 3. Paragraph 63 of SFFAS 3 makes it clear to report seized and forfeited property based only on market value from an active market for the property. The only caveat is to report market value using an active market nearest the place of seizure if an active market does not exist for the property in the general area it was seized.<sup>7</sup> Therefore, staff believes this technical guidance should not provide a new reporting requirement to measure value based on an inactive market specifically for digital assets. Staff also notes that FASB had different cost-benefit considerations when issuing its broader guidance for generally all entities holding crypto assets compared to the much narrower topic of seized and forfeited property reporting that this TB clarifies.

Furthermore, staff believes that valuing seized and forfeited digital assets based on inactive markets would lead to inaccurate information that is irrelevant and/or misleading to users.<sup>8</sup> As indicated by the other comment letters and working group input, staff believes that paragraphs 23-26 of this TB would reduce preparer burden and improve user benefits by clarifying and explaining how management should use reasonable effort to measure seized and forfeited digital assets using only publicly observable active markets for the specific digital asset.

Finally, SFFAS 3 requires that property be measured at market value based on an active market when seized and when forfeiture judgement is obtained. Staff does not believe SFFAS 3 nor the proposed TB guidance would otherwise require reporting entities to revalue a seized or forfeited digital asset based on whether a digital asset market changes between active and inactive status.<sup>9</sup> Staff notes that no other respondent expressed concerns with measuring seized and forfeited digital assets only using publicly observable active markets, nor did working group members express this concern when developing the proposal.

Two respondents who agreed with QFR 2 also provided further comments:

- B. Respondent #3 noted that it is possible that digital assets without publicly observable active markets could relate to property that cannot be sold due to

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<sup>6</sup> FASB Accounting Standards Update (ASU) 2023-08-Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): *Accounting for and Disclosure of Crypto Assets*, December 2023.

<sup>7</sup> As previously discussed, this geographic based measurement guidance would not be practical for measuring digital assets in which physical location of markets is irrelevant.

<sup>8</sup> FASB ASU 2023-08, paragraph BC38 indicates that FASB members acknowledged that valuing crypto assets using any input other than an active market could result in a minimal or zero value.

<sup>9</sup> Unlike FASB ASU 2023-08, which requires remeasurement and impairment recognition of crypto assets.

legal restrictions, similar to firearms, counterfeit money, contraband, and illegal drugs.

Staff addressed this issue previously in the October 2023 Board material and does not recommend any further changes to the TB. It is possible that some seized and forfeited digital assets could potentially relate to property that cannot be sold due to legal restrictions, similar to firearms, counterfeit money, and illegal drugs.<sup>10</sup> However, the proposed TB clarifies when and how a reporting entity should report a market value for seized and forfeited digital assets that do not have legal restrictions for sale. Due to the nature of digital asset markets, certain types of seized digital assets may not have a publicly observable active market even though there are no legal restrictions barring the federal government from selling the digital asset.

- C. Respondent #9 requested that the TB more specifically provide prescriptive guidance on what types of valuation methods or services would not meet the TB definition of a publicly observable active market for digital assets.

Staff previously addressed this issue in the October 2023 Board material and does not recommend any further changes to the TB. Staff believes the proposed guidance in paragraphs 23-25 of the TB appropriately addresses the costs vs. benefits of reporting a market value for seized and forfeited digital assets by clarifying that reporting entities should report a market value only if management, based on reasonable effort, can determine that a publicly observable active market exists for the specific digital asset.

Paragraph 23 specifically clarifies that a publicly observable market is a market that is widely visible to anyone. Examples of exchanges that publicly depict digital asset market values include CoinMarketCap, Binance, Coinbase, CoinGecko, Kraken, and Bitgur. Staff notes that per paragraph 24 of the TB, the guidance will require management to apply judgment in determining the most appropriate publicly observable active market for valuing each digital asset.

Staff does not believe that GAAP should prescribe specific methods that a preparer or auditor should or should not use to measure market value for seized and forfeited digital assets. Digital asset markets are very dynamic and staff believes that providing overly detailed and prescriptive measurement guidance would be too rigid and quickly become outdated, which would make the guidance difficult to apply and result in additional burden on preparers.

## Staff Recommendation #2

Staff recommends no further changes to the TB guidance that clarifies market value measurement requirements for seized and forfeited digital assets. This recommendation

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<sup>10</sup> The working group previously indicated that seized and forfeited digital assets would rarely fall into this category.

is based on the overwhelming respondent agreement with QFR 2 and staff's analysis of the respondent comments.

### Question for the Board:

2. Does the Board agree with staff's recommendation related to QFR 2?

### Responses to QFR 3

***QFR 3: The proposed TB would clarify that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including digital assets for which 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.***

<b>QFR 3 - Summary of Responses</b>			
<b>Resp. #</b>	<b>Agree</b>	<b>Disagree</b>	<b>N/A</b>
1 - AGA FMSB	X		
2 - HUD/GNMA	X		
3 - GKA, P.C.	X		
4 - DHS	X		
5 - TEOAF	X		
6 - NASA			X
7 - SSA			X
8 - DOC	X		
9 - DOJ	X		
10 - DOD	X		
11 - DOE			X
12 - EY	X		
13 - GWSCPA	X		
14 - VA			X
15 - Treasury	X		
<b>Total</b>	<b>11</b>		<b>4</b>

Out of 15 responses received for QFR 3, 11 respondents agreed and 4 provided no comment because seized and forfeited digital assets do not apply to them. None of the respondents disagreed.

Several respondents provided reasons for their agreement, to include:

- Yes, we support the proposed guidance. While digital assets represent emerging technology, they are functionally no different than other forms of monetary or nonmonetary property and thus should be reported using extant requirements.
- The agency agrees with the proposed TB. This approach is consistent with the existing SFFAS 3 standard which represents the higher level of GAAP under SFFAS 34 Hierarchy of Generally Accepted Accounting Principles.
- Agree. Digital assets are classified as another category of property (either valued or non-valued) and should be treated as such based on existing disclosure requirements.
- Agree. Currently, there so many competing digital assets that it does not make sense to differentiate them. Combining them together provides the necessary information to public readers of the financial statements.
- We agree. No specific information is required regarding other assets and there should be no reason to disclose specific information about these as well.
- The Department agrees that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including digital assets for which reporting entities cannot determine a market value. We also agree that SFFAS 3 does not require reporting entities to disclose specific information about individual digital asset seizures or forfeitures.
- The agency supports the TB disclosure not requiring specific information about individual digital asset seizures or forfeitures. Due to the sensitive nature of detailed information, permitting agencies to report at a high level will keep sensitive law enforcement information protected and mitigate the risk that reporting detail could compromise investigative activity.
- The agency generally agrees with the proposed clarification for the reasons stated in the ED.

Respondents provided no additional comments on QFR 3.

### Staff Recommendation #3

Staff recommends no further changes to the TB guidance that clarifies note disclosure requirements for seized and forfeited digital assets. This recommendation is based on the overwhelming respondent agreement with QFR 3.

**Question for the Board:**

3. Does the Board agree with staff's recommendation related to QFR 3?

**Responses to QFRs 4 and 5**

Due to the similar nature of responses, staff has combined the comment letter analysis for QFRs 4 and 5.

***QFR 4: 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 reference the specific issues, applicable guidance, and potential solutions.***

***QFR 5: Do you wish to comment on any other specific aspects of this proposal?***

Out of 15 responses received for both QFRs 4 and 5, approximately 5 respondents provided additional comments for each QFR. Staff has combined the analysis for similar comments below.

- A. Respondents #3, 12, and 15 suggested that Board guidance should address whether reporting entities should periodically revalue and/or account for impairment losses for seized and forfeited digital assets.

Staff previously addressed this issue in the October 2023 Board material and does not recommend that the TB provide reporting guidance on revaluing seized and forfeited digital assets. SFFAS 3 does not explicitly require periodic revaluation or impairment accounting for seized and forfeited property. Therefore, staff believes that the TB should not issue new accounting requirements to periodically revalue or account for impairment losses specifically for seized and forfeited digital assets because it would conflict with the SFFAS 34 GAAP hierarchy.

- B. Respondent #4 provided information about a Treasury Financial Crimes Enforcement Network (FinCEN) public notice for a proposed regulation amendment concerning convertible virtual currencies and other digital assets with legal tender status. Staff followed up with the respondent and performed additional research to understand the public notice. According to the Office of Information and Regulatory Affairs, "FinCEN is proposing an amendment to regulations implementing the Bank Secrecy Act that would require banks and money service businesses to submit reports, keep records, and verify the identity of customers in relation to transactions involving convertible virtual currency or

digital assets with legal tender status held in un-hosted wallets, or held in wallets hosted in a jurisdiction identified by FinCEN."<sup>11</sup>

Staff does not recommend any further updates to the TB. It appears to staff that the proposed regulation amendment would consider convertible virtual currencies and digital assets with legal tender status as currency substitutes, and therefore monetary instruments in accordance with 31 U.S.C. 5312(a)(3) for the specific purposes of enforcing certain bank reporting requirements under the Bank Secrecy Act.<sup>12</sup> Therefore, staff does not believe this proposed regulation amendment is relevant to financial reporting requirements for federal entities and would not overlap with SFFAS 3 or the proposed TB.

- C. Respondent #12 suggested that the definition of digital assets in paragraph 8 of the TB should state that digital assets are powered by blockchain technology and are secured through cryptography. The respondent suggested that without this definition, the scope of the TB guidance could be greater than the Board intended.

Staff previously addressed this issue in the October 2023 Board material and does not recommend updating the digital asset definition. The TB Glossary in Appendix C defines crypto assets as, "Crypto assets are a common subset of digital assets that use cryptographic techniques and distributed ledger technology, such as blockchain." Paragraph 8 in the proposed TB intentionally defines "digital assets" more broadly so that the guidance will apply to the vast number of different types of digital assets, not just crypto assets, that reporting entities could potentially seize now and in the future.<sup>13</sup>

Paragraph A8 of the TB states, "This proposal does not specifically exclude any type of digital asset from applying to the reporting requirements in SFFAS 3." Staff believes that if a reporting entity is seizing any type of digital asset as part of its mission, the TB and associated SFFAS 3 guidance should apply to that property.

- D. Respondent #12 suggested that the Board should consider providing guidance on what factors management should consider when applying paragraph 24 of the proposed TB to determine the most appropriate publicly observable active market to reference for valuing each digital asset.

Respondent #1 provided a related comment that it may be helpful to maintain a list that identifies which digital assets are considered to have publicly observable

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<sup>11</sup> Office of Information and Regulatory Affairs, *Requirements for Certain Transactions Involving Convertible Virtual Currency or Digital Assets*, 2022, <https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202204&RIN=1506-AB47>

<sup>12</sup> Federal Register, *Requirements for Certain Transactions Involving Convertible Virtual Currency or Digital Assets*, January 15, 2021, <https://www.federalregister.gov/documents/2021/01/15/2021-01016/requirements-for-certain-transactions-involving-convertible-virtual-currency-or-digital-assets>

<sup>13</sup> For example, the scope of the TB guidance could apply to security tokens, which the TB Glossary defines as, "Security tokens are digital forms of financial instruments that represent ownership in another asset, such as real estate or equity in a company."

active markets, and how to access those markets to look up historical values. However, the respondent acknowledged that given the speed at which digital assets and their markets evolve, such a list would not be appropriate content for FASAB to maintain.

Staff does not recommend any further updates to the TB. Staff agrees with respondent #1 that a list of publicly observable active markets for digital assets would not be appropriate for the Board to issue because it would quickly become outdated and be impractical to keep current. Furthermore, staff does not believe it would be beneficial for the TB to provide specific guidance on the factors for management to consider when using judgment to determine the most appropriate publicly observable active market for digital assets.<sup>14</sup> The characteristics of each specific digital asset market are dynamic and quickly evolving and staff believes that overly prescriptive Board guidance would be too rigid to practically apply and could quickly become outdated.

- E. Respondent #4 opined that SFFAS 3 should not require reporting entities to report a market value for any seized property until ownership of the property is turned over to the federal government through forfeiture proceedings.

Respondent #9 recommended that the Board amend the guidance in SFFAS 3, paragraph 63 to state that seized property shall be valued on the “date of seizure” instead of “when seized” or as soon as “management” determines it is reasonably possible.

Staff previously addressed these issues in the October 2023 Board material and does not recommend any further changes to the TB. Staff believes the suggested guidance changes would require amending SFFAS 3 requirements for seized property. The proposed TB clarifies existing seized and forfeited property guidance requirements in SFFAS 3 for digital assets. Staff believes it would be inappropriate for the TB, as level B guidance, to amend SFFAS 3 requirements for all seized property.

Furthermore, paragraphs 23-25 of the TB offer clarifying guidance for management to determine how and when it is reasonably possible to value digital assets upon seizure in accordance with existing requirements in SFFAS 3. However, staff believes management should have the flexibility to use judgment and reasonable effort to determine when to measure a market value for seized and forfeited digital assets.

- F. Respondent #9 stated that reporting entities need guidance on how to account for exchange fees associated with some seized digital assets. The respondent explained that often in cases of digital asset seizures, the number of units taken

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<sup>14</sup> Staff is not aware that the Board has ever provided guidance for determining principal markets when measuring market value.

from the owner is greater than the number of units actually seized due to exchange fees in the form of a percentage of units taken from the original unit.

Staff does not recommend that the TB provide reporting requirements for exchange fees. Staff followed up with the respondent to further understand the comment. The respondent stated that management recently became aware of this very new issue. Upon further thought, the respondent determined that a lot more research was needed to fully understand the exchange fee scenario before considering if and how Board guidance could address the issue. Furthermore, SFFAS 3 does not offer any guidance for accounting for transaction fees as part of seized and forfeited property transactions and staff therefore does not believe the TB should provide new accounting requirements on the topic.

- G. Respondent #9 suggested that paragraph 23 of the TB further clarify that reporting entities should measure market value for seized and forfeited digital assets based on an “end-of-day price” on a publicly observable market, to prevent value misstatements due to the volatile market values of digital assets throughout the day.

Staff does not recommend that the TB specifically prescribe an exact point in time that a reporting entity should value a seized or forfeited digital asset because it could add too much rigidity in the guidance and lead to additional preparer burden with little user benefit. Due to the high market volatility of many digital assets, a reported market value would soon become outdated anyway and staff does not see a user benefit to guidance requiring that measurement occurs at a specific hour in the day.

- H. Respondent #9 provided an editorial suggestion to improve the cohesiveness of the TB. In paragraph 26, the respondent suggested relocating the sentence, “The U.S. government does not currently have a central bank digital currency.” to either paragraph 17, 18, or the basis for conclusions.

Staff recommends a minor update to the TB per this comment. Staff believes the sentence is important for setting the context for why the guidance does not address U.S. central bank digital currencies. However, staff agrees with the respondent that the sentence would be more effective in paragraph 17 that describes central bank digital currencies. This would result in paragraph 26 providing only measurement guidance for foreign central bank digital currencies.

#### Staff Recommendation #4

Per staff’s analysis in item H above, staff recommends moving sentence, “The U.S. government does not currently have a central bank digital currency.” from paragraph 26 to a footnote in paragraph 17. The recommended edit is in tracked changes in Attachment 4. This change is editorial and would not affect the guidance in the TB.

Staff recommends no further changes to the TB’s authoritative guidance. This is based on staff’s analysis to the respondent comments for QFR 4 and 5 in the previous section.

**Question for the Board:**

4. Does the Board agree with staff's recommendation related to QFRs 4 and 5?

**RECOMMENDED EDIT TO SUMMARY SECTION OF TB**

Staff identified an opportunity to improve a sentence in the Summary section of the TB that better summarizes how the TB clarifies whether reporting entities should treat digital assets as monetary or nonmonetary property when applying SFFAS 3. The second sentence of the second paragraph originally stated:

*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.*

Staff recommends editing the sentence to state:

*The TB further clarifies that reporting entities should treat central bank digital currencies as monetary instruments and all other digital assets as nonmonetary property when applying the requirements of SFFAS 3.*

This edit is based on staff's further review of the TB. It is not based on any particular public comment. Members can view this edit as tracked changes in Attachment 4.

**Staff Recommendation #5**

Staff recommends the above edit to the Summary section of the TB because it more clearly summarizes that the TB clarifies that reporting entities should treat only central bank digital currencies as monetary instruments and all other digital assets as nonmonetary property when applying the accounting and reporting requirements of SFFAS 3.

**Question for the Board:**

5. Does the Board agree with staff's recommended edit to the Summary section of the TB?

## RECOMMENDED UPDATES TO BASIS FOR CONSLUSIONS

Staff recommends adding paragraphs A13-A19 to the draft basis for conclusions. The recommended paragraphs are based on staff's analysis of the key issues addressed in the comment letter analysis. The proposed language is contingent upon Board deliberations and decisions. Members can view the recommended updates as tracked changes in Attachment 4. A summary of the paragraphs are as follows:

- Paragraph A13 addresses FASAB staff policies for documenting exposure draft comment periods and resulting letters and outreach.
- Paragraph A14 discusses the general level of support for the proposed TB and states that the Board further updated the TB for structure and clarity improvements. This statement relates to staff's recommended editorial update in staff recommendation #4.
- Paragraph A15 addresses comment letters requesting guidance on periodic revaluation/impairment of seized and forfeited digital assets that staff's analysis covered in QFR 4-5, item A.
- Paragraph A16 addresses the comment letter suggesting that certain stablecoins could represent monetary instruments that staff's analysis covered in QFR 1, item C.
- Paragraph A17 addresses the comment letter suggesting that seized and forfeited digital assets should also be measured based on inactive markets that staff's analysis covered in QFR 2, item A.
- Paragraphs A18-A19 address the various comment letters that requested more detailed and prescriptive measurement guidance that staff's analysis covered in QFR 1, item E, QFR 2, item C, and QFR 4-5, items D, E and G.

### Staff Recommendation #6

Staff recommends adding paragraphs A13-19 in the TB's basis for conclusions.

#### **Question for the Board:**

6. Does the Board agree with staff's recommended updates to the basis for conclusions?

## **NEXT STEPS**

Pending Board feedback, staff will further update the draft TB as needed. If there are no remaining issues after the June meeting deliberations, staff plans to proceed with requesting Board ballot approval to issue the TB.

Resp. No.	Organization
1	AGA Financial Management Standards Board
2	Department of Housing and Urban Development
3	GKA, P.C.
4	Department of Homeland Security
5	Treasury Executive Office for Asset Forfeiture
6	National Aeronautics and Space Administration
7	Social Security Administration
8	Department of Commerce
9	Department of Justice
10	Department of Defense
11	Department of Energy
12	Ernst & Young LLP
13	Greater Washington Society of CPAs, Federal Issues and Standards Committee
14	Department of Veterans Affairs
15	Department of the Treasury

QFR 1: 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 to digital assets. Do you agree or disagree? Please provide the rationale for your answer.			
Ref. No.	Agreement type	Response	Preliminary Staff Notes
1	Agree	Yes, we support the proposed guidance. Guidance is appropriate and we note that it is consistent with guidance on digital assets issued by the IRS.	No comment.
2	Agree	<p>The Federal Housing Administration (FHA) and HUD CFO Accounting Offices state that the seizure and forfeiture of digital assets is not applicable to either office at this time, thus, both offices have no comment.</p> <p>While the Government National Mortgage Association (GNMA) Office of Accounting does not foresee circumstances where GNMA would seize or possess digital assets, the GNMA Accounting Office agrees with the proposed TB. The value of other digital assets, such as “Crypto” assets, may not be traded on a sufficiently active or observable market, and liquidation may not be possible at quoted prices or in reasonable timeframes. Therefore such assets should be recorded as non-monetary property in accordance with SFFAS 3.</p>	No comment.
3	Agree	Agree. Digital assets should be classified as General Property since basically, they must be sold before revenue is realized.	No comment.
4	Agree	<p>Agree. Central bank digital currencies (CBDCs) are another form of official government backed money so they should be treated like cash and coins.</p> <p>DHS would prefer a transition period be implemented. Until then treat them like all other digital assets.</p> <p>CBDCs are currently limited in scope as only the Bahamas, Jamaica, and Nigeria have already introduced CBDCs. More than 100 countries are in the exploration stage. The Federal Reserve is looking at this as well but there is no current timeline for implementation. Since the U.S. is not authorizing U.S. CBDCs, there is no available, comparable, or compatible U.S. infrastructure that exists to handle CBDCs as cash. Treating CBDCs as cash would mean transferring and securing like cash would be impractical. CBDCs operate on blockchain technology such as Ethereum, and their current characteristics when used in the U.S. are more similar to cryptocurrencies such as stablecoins.</p>	<p>Staff followed up with the respondent to understand the concern. Upon further thought, the respondent stated that the comment pertained to internal control and administrative matters, not financial reporting requirements.</p> <p>Staff does not recommend a transition period for the TB. The proposed TB would not require a federal entity to seize foreign central bank digital currencies or direct how to handle them internally. The guidance only clarifies how to report central bank digital currencies in accordance with existing SFFAS 3 requirements if an agency were to seize them.</p>
5	Agree	We agree with clarifying the existing guidance. Central bank digital currencies are the currency of the specific country, and it should be treated as monetary instruments as the U.S. does with its currency. All other cryptocurrencies are currency considered to be commodities and should be treated as such.	No comment.
6	N/A	NASA is not currently involved with digital assets.	No comment.
7	N/A	SSA has no comments at this time, and we defer to other agencies who may be impacted by this proposed Technical Bulletin.	No comment.
8	Agree	The Department agrees with the proposed 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.	No comment.
9	Agree	<p>Agree - The TB clearly defines central bank digital currencies (CBDC) and digital assets which agrees with DOJ's current understanding of digital assets.</p> <p>While the TB includes clear definitions differentiating CBDC from other digital assets, the DOJ Asset Forfeiture Management Staff (AFMS) recommends including or referencing the definition of monetary instruments in 31 USC § 5312(a)(3) in paragraph 18 to further clarify the distinction between the two categories. Paragraph 18 states "digital assets, other than central bank digital currencies, do not typically possess all monetary characteristics" but does not include a reference to what the monetary characteristics are. The characteristics are critical to the determination of whether an asset is a monetary asset or a nonmonetary asset.</p>	<p>Staff notes that paragraph 18 of the TB does reference the monetary characteristics "That is, they are not effective as a unit of account, medium of exchange, or store of value." Additionally, paragraph A12 in the basis for conclusions further describes why most digital assets do not meet all of these monetary characteristics.</p> <p>Staff does not recommend that the TB reference 31 USC § 5312(a)(3) to distinguish which digital assets are monetary instruments because doing so would cause the TB guidance to not conform with the Board's existing framework on cash and other monetary assets in SFFAC 2 and SFFAS 1.</p> <p>As level B GAAP, the proposed TB explains why the Board considers which digital assets to classify as monetary or nonmonetary only for applying SFFAS 3 requirements for seized and forfeited property. The TB would not provide principal-based guidance on monetary characteristics for any other types of property.</p>
10	Agree	DoD concurs with the treatment of central bank digital currencies as monetary and other digital assets as nonmonetary.	No comment.
11	N/A	The Department of Energy has no comments on this ED.	No comment.

QFR 1: 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 to digital assets. Do you agree or disagree? Please provide the rationale for your answer.			
Ref. No.	Agreement type	Response	Preliminary Staff Notes
12	Agree	<p>We generally agree that digital assets other than central bank digital currencies should be treated as other than monetary assets. We recommend the FASAB change the wording in the proposed guidance to other than monetary, rather than nonmonetary, to be consistent with the existing guidance for seized and forfeited assets in SFFAS 3.</p> <p>Additionally, we believe the proposed guidance may be challenging to apply to certain stablecoins, because there are scenarios in which a stablecoin would be a monetary asset. For instance, USD Coin is highly liquid and readily convertible to cash either through redemption with the issuer or sale in a secondary market.</p>	<p>Staff recommends the TB continue to use the the term "nonmonetary" rather than "other than monetary" because it provides a more clear and efficient sentence structure for more effective guidance. The proposed TB references the relevant SFFAS 3 paragraphs when clarifying guidance.</p> <p>Staff does not recommend reporting stablecoins as monetary instruments. The TB glossary defines stablecoins as – “Stablecoins are crypto assets that are backed by a portfolio of underlying assets and claimed to have a stable exchange value with these assets.” It is true that some stablecoin values are pegged to the U.S. dollar. However, staff believes paragraphs 16-18 of the proposed TB makes it clear why reporting entities should treat only central bank digital currencies as monetary instruments when applying SFFAS 3 requirements. Even stablecoins that peg to the U.S. dollar are not fiat money issued and backed by a government entity, nor are they currently effective as a unit of account or medium of exchange. Furthermore, while stablecoins are designed to have a more stable store of value, research indicates they have previously lost their peg to the U.S. dollar.</p>
13	Agree	The FISC generally agrees with the proposed clarification for the reasons stated in the ED.	No comment.
14	N/A	The exposure draft on seized and forfeited digital assets do not apply to VA. For this reason, VA does not have any comments to provide.	No comment.
15	Agree	The Department of the Treasury agrees with the proposed TB, but there will need to be authoritative source to help identify a list of valid Central Bank Digital Currencies. A simple Google search provided varying results.	Staff does not recommend that the TB provide an authoritative list of central bank digital currencies. Paragraph 17 of the proposed TB provides a clear description of a central bank digital currency that several other federal sources use – “a form of government-backed digital money, denominated in the national unit of account that is a direct liability of the central bank.” Staff agrees that some form of policy or other guidance could assist management with identifying central bank digital currencies. However, staff does not believe this TB should provide a list of central bank digital currencies because it would quickly become outdated and be impractical to keep current.

QFR 2: 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.			
Ref. No.	Answer	Response	Preliminary Staff Notes
1	Agree	Yes, we support the proposed guidance. Especially given the highly volatile nature of digital assets without active markets, we would expect the cost of developing estimates would exceed any benefits.	No comment.
2	Agree	The Federal Housing Administration (FHA) and HUD CFO Accounting Offices state that the seizure and forfeiture of digital assets is not applicable to either office at this time, thus, both offices have no comment.  While the GNMA Accounting Office does not foresee circumstances where GNMA would seize or possess digital assets, GNMA agrees with the proposed TB. The TB removes ambiguity as to whether reporting entities should attempt to estimate a market value for digital assets with unobservable and/or inactive markets.	No comment.
3	Agree	Agree. In cases where a publicly observable market does not exist, the asset may turn out to be a non-valued item and be classified as such in one of the following categories:  Contraband - Any property imported into or exported from a country contrary to its laws. Counterfeit - This category consists of items that infringe upon trademark, patent or intellectual property laws and are seized by CBP, ICE. Prohibited Items - Items for which no legal market exists in the United States and which will not be sold for export.	It is possible that some seized and forfeited digital assets could potentially relate to property that cannot be sold due to legal restrictions, similar to firearms, counterfeit money, and illegal drugs. However, the proposed TB clarifies when and how a reporting entity should report a market value for seized and forfeited digital assets that do not have legal restrictions for sale. Due to the nature of digital asset markets, certain types of seized digital assets may not have a publicly observable active market even though there are no legal restrictions barring the federal government from selling the digital asset.
4	Agree	Yes. Again, it needs to be treated like foreign cash and coin subject to a transition period.	See staff notes for QFR 1, Ref. No. 4.
5	Agree	We agree and this follows the same concept as SFFAS.	No comment.
6	N/A	NASA is not currently involved with digital assets.	No comment.
7	N/A	SSA has no comments at this time, and we defer to other agencies who may be impacted by this proposed Technical Bulletin.	No comment.
8	Agree	The Department agrees that the purposed would clarify that, for 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.	No comment.
9	Agree	Agree- DOJ agrees with the proposed language and acknowledges that it aligns with the Department’s current valuation process used for foreign currency and other assets.  However, the DOJ AFMS requests that the TB specify that private subscription services (e.g., Bloomberg), which often charge high fees for current and historical values, do not meet the definition of a "publicly observable market." Those private subscriptions are high-cost and preclude use by many government agencies; however, private auditing firms have the resources for these high-cost subscriptions and use these tools to determine whether the agency has accurately valued digital assets.	Staff does not recommend any further changes to the TB. Staff believes the proposed guidance in paragraphs 23-25 of the TB appropriately addresses the costs vs. benefits of reporting a market value for seized and forfeited digital assets by clarifying that reporting entities should report a market value only if management, based on reasonable effort, can determine that a publicly observable active market exists for the specific digital asset. Paragraph 23 specifically clarifies that a publicly observable market is a market that is widely visible to anyone.  Staff does not believe that GAAP should prescribe specific methods that a preparer or auditor should or should not use to measure market value for seized and forfeited digital assets. Providing overly detailed and prescriptive measurement guidance would be too rigid and quickly become outdated, which would make the guidance difficult to apply.
10	Agree	DoD concurs with reporting seized and forfeited currency at the U.S. dollar exchange rate and all other assets at market value, if a publicly observable market value exists.	No comment.
11	N/A	The Department of Energy has no comments on this ED.	No comment.

QFR 2: 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.			
Ref. No.	Answer	Response	Preliminary Staff Notes
12	Partially agree	<p>We agree that central bank digital currencies should be translated into US dollars at the relevant exchange rate and that digital assets should be reported at market value.</p> <p>We believe that limiting reporting for digital assets to those with a publicly observable active market may be unintentionally complex. The FASB considered excluding from the scope of its new guidance on accounting for and disclosure of crypto assets without an active market, but it ultimately decided to include them because of the complexity of reporting that could result from a crypto asset moving from within the scope to outside the scope based on changes in the market activity for that asset. While the FASB had additional considerations that would not be applicable under the FASAB's guidance, the complexity that would arise from only recording digital assets with a publicly observable active market under the proposed guidance could result in challenges for preparers and auditors.</p>	<p>Staff does not recommend that the TB require reporting entities to measure seized or forfeited digital assets using inactive markets because it would conflict with the level A guidance in SFFAS 3. Staff believes paragraph 63 of SFFAS 3 makes it clear to report seized and forfeited property based only on market value from an active market. Therefore, staff believes this technical guidance should not provide a new reporting requirement to measure value based on an inactive market specifically for digital assets.</p> <p>Furthermore, staff believes that valuing seized and forfeited digital assets based on inactive markets would lead to inaccurate information that is irrelevant and/or misleading to users. As indicated by the other comment letters and working group input, staff believes that paragraphs 23-26 of this TB would reduce preparer burden and improve user benefits by clarifying and explaining how management should use reasonable effort to measure seized and forfeited digital assets using only publicly observable active markets for the specific digital asset.</p>
13	Agree	The FISC generally agrees with the proposed clarification for the reasons stated in the ED.	No comment.
14	N/A	The exposure draft on seized and forfeited digital assets do not apply to VA. For this reason, VA does not have any comments to provide.	No comment.
15	Agree	The Department of the Treasury agrees with the proposed TB.	No comment.

QFR 3: The proposed TB would clarify that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including digital assets for which 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.			
Ref. No.	Answer	Response	Preliminary Staff Notes
1	Agree	Yes, we support the proposed guidance. While digital assets represent emerging technology, they are functionally no different than other forms of monetary or nonmonetary property and thus should be reported using extant requirements.	No comment.
2	Agree	The Federal Housing Administration (FHA) and HUD Accounting Offices state that the seizure and forfeiture of digital assets is not applicable to either office at this time, thus, there is no comment.  While the GNMA Accounting Office does not foresee circumstances where GNMA would seize or possess digital assets, GNMA agrees with the proposed TB. This approach is consistent with the existing SFFAS 3 standard which represents the higher level of GAAP under SFFAS 34 Hierarchy of Generally Accepted Accounting Principles.	No comment.
3	Agree	Agree. Digital assets is classified as another category of property (either valued or non-valued) and should be treated as such based on existing disclosure requirements.	No comment.
4	Agree	Agree. Currently, there so many competing digital assets that it does not make sense to differentiate them. Combining them together provides the necessary information to public readers of the financial statements.	No comment.
5	Agree	We agree. No specific information is required regarding other assets and there should be no reason to disclose specific information about these as well.	No comment.
6	N/A	NASA is not currently involved with digital assets.	No comment.
7	N/A	SSA has no comments at this time, and we defer to other agencies who may be impacted by this proposed Technical Bulletin.	No comment.
8	Agree	The Department agrees that reporting entities should apply the existing SFFAS 3 disclosure requirements for seized and forfeited digital assets, including digital assets for which reporting entities cannot determine a market value. We also agree that SFFAS 3 does not require reporting entities to disclose specific information about individual digital asset seizures or forfeitures.	No comment.
9	Agree	Agree - DOJ supports the TB disclosure not requiring specific information about individual digital asset seizures or forfeitures. Due to the sensitive nature of detailed information, permitting agencies to report at a high level will keep sensitive law enforcement information protected and mitigate the risk that reporting detail could compromise investigative activity.	No comment.
10	Agree	The DoD concurs with the current disclosure requirements in SFFAS 3.	No comment.
11	N/A	The Department of Energy has no comments on this ED.	No comment.
12	Agree	We agree that entities should apply SFFAS 3 disclosure requirements.	No comment.
13	Agree	The FISC generally agrees with the proposed clarification for the reasons stated in the ED.	No comment.
14	N/A	The exposure draft on seized and forfeited digital assets do not apply to VA. For this reason, VA does not have any comments to provide.	No comment.
15	Agree	The Department of the Treasury agrees with the proposed TB.	No comment.

QFR 4: 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 reference the specific issues, applicable guidance, and potential solutions.			
Ref. No.	Answer	Response	Preliminary Staff Notes
1	No	<p>We do not see any remaining ambiguity in applying SFFAS 3 requirements to digital assets.</p> <p>Since digital assets are an emerging and evolving area, we are aware of a number of operational challenges faced by agencies, as well as challenges that arise due to a lack of familiarity with these assets and their markets. To address familiarity challenges, it may be helpful to maintain a list that identifies which digital assets are considered to have publicly observable active markets, and how to access those markets to look up historical values. Such a list would be a resource for agencies and assist in consistency for government-wide reporting. Given the speed at which digital assets and their markets evolve, we think such a list would not be appropriate content for FASAB to maintain. Rather, it would seem more appropriate for such a list to be maintained by the U.S. Department of the Treasury or the IRS.</p>	<p>Staff agrees that a list of publicly observable active markets for digital assets would not be appropriate for the Board to issue because it would quickly become outdated and be impractical to keep current.</p>
2	No	<p>The Federal Housing Administration (FHA) and HUD CFO Accounting Offices state that the seizure and forfeiture of digital assets is not applicable to either office at this time, thus, both offices have no comment.</p> <p>The GNMA Accounting Office did not note other ambiguous areas that could lead to challenges with implementing the SFFAS 3 reporting requirements for seized and forfeited digital assets.</p>	<p>No comment.</p>
3	One	<p>Recordation of Value Changes: Value changes for digital assets are generally very material. Considering that historically, these fluctuations have included speculative factors. Reporting positive value changes, may not be consistent with the conservative principle. Going by considerations of the International Financial Reporting Standards, our consideration is not to record positive value changes. Negative value changes may be recorded.</p>	<p>Staff does not recommend that the TB provide reporting guidance on revaluing seized and forfeited digital assets. SFFASA 3 does not explicitly require periodic revaluation for seized and forfeited property. Therefore, staff believes it would be inappropriate for the TB to issue new accounting requirements to specifically revalue seized and forfeited digital assets because it would conflict with the SFFAS 34 GAAP hierarchy.</p>
4	One	<p>There is a possible ambiguous area for government definitions and government guidance. We would like to point out:</p> <p>Treasury Financial Crimes Enforcement Network (FINCEN) is still reviewing a public notice on proposed rulemaking for controlling Convertible Virtual Currency, or digital assets with legal tender status (Legal tender digital assets ‘LTDA’) held in unhosted wallets or held in wallets hosted in a jurisdiction identified by FINCEN. Department of the Treasury Financial Crimes Enforcement Network 31 CFR Parts 1010, 1020, and 1022 RIN 1506–AB47</p>	<p>Per the Office of Information and Regulatory Affairs, "FinCEN is amending the regulations implementing the Bank Secrecy Act to require banks and money service businesses to submit reports, keep records, and verify the identity of customers in relation to transactions involving convertible virtual currency or digital assets with legal tender status held in un-hosted wallets, or held in wallets hosted in a jurisdiction identified by FinCEN."</p> <p>It appears to staff that the proposed regulation amendment would consider convertible virtual currencies and digital assets with legal tender status as currency substitutes, and therefore monetary instruments for the purposes of enforcing certain bank reporting requirements under the Bank Secrecy Act. Therefore, staff does not believe this proposed regulation amendment is relevant to financial reporting requirements for federal entities and would not overlap with SFFAS 3 or the proposed TB.</p>
5	No	<p>No, we have not identified any areas.</p>	<p>No comment.</p>
6	N/A	<p>NASA is not currently involved with digital assets.</p>	<p>No comment.</p>
7	N/A	<p>SSA has no comments at this time, and we defer to other agencies who may be impacted by this proposed Technical Bulletin.</p>	<p>No comment.</p>
8	No	<p>The Department does not believe that any ambiguous areas remain that could lead to challenges with implementing the SFFAS 3 reporting requirements for seized and forfeited digital assets.</p>	<p>No comment.</p>

QFR 4: 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 reference the specific issues, applicable guidance, and potential solutions.			
Ref. No.	Answer	Response	Preliminary Staff Notes
9	Two	<p>Yes-</p> <p>(A) Paragraph 23 discusses the market value for seized and forfeited digital assets. Due to the unique nature of digital assets, DOJ AFMS recommends the determination of market value be clarified further to state that market value is the end-of-day price on a publicly observable market, to prevent value misstatements due to constant value fluctuations for digital currency and values determined at other times of the day the asset is seized or forfeited.</p> <p>(B) Often in cases of digital seizures, the number of units taken from the owner is greater than the number of assets actually seized, due to exchange fees in the form of a percentage of units taken from the original unit count. Government agencies need clarity on how to account for these exchange fees. Does the agency report the number of units taken or the number of units actually received as a seized asset?</p>	<p>(A) Staff does not recommend that the TB specifically prescribe an exact point in time that a reporting entity should value a seized or forfeited digital asset because it could add too much rigidity in the guidance and lead to additional preparer burden with little user benefit. Paragraphs 23-25 of the proposed TB offer clarifying guidance for management to determine when it is reasonably possible to value digital assets after seizure and forfeiture in accordance with existing guidance in SFFAS 3.</p> <p>(B) Staff does not recommend that the TB provide reporting requirements for exchange fees. Staff followed up with the respondent to further understand the comment. The respondent stated that management recently became aware of this very new issue. Upon further thought, the respondent determined that a lot more research was needed to fully understand the exchange fee scenario before considering if and how Board guidance could address the issue. Furthermore, SFFAS 3 does not offer any guidance for accounting for transaction fees as part of seized and forfeited property transactions and staff therefore does not believe the TB should provide new accounting requirements on the topic.</p>
10	No	Not at this time.	No comment.
11	N/A	The Department of Energy has no comments on this ED.	No comment.
12	2	<p>We believe the definition of digital assets in proposed paragraph 8 should state that digital assets are powered by blockchain technology and are secured through cryptography, as commonly referenced in other definitions of digital assets. Without this phrase, the definition in the proposed guidance could be applied to other assets, such as electronic stock certificates. If this was not the intent of the Board, we recommend making this revision.</p> <p>Additionally, proposed paragraph 24 would state that judgment should be applied in determining the most appropriate publicly observable active market. We encourage the Board to consider providing guidance to preparers on what factors to consider.</p>	<p>Staff does not recommend updating the digital asset definition. The TB Glossary in Appendix C defines crypto assets as, "Crypto assets are a common subset of digital assets that use cryptographic techniques and distributed ledger technology, such as blockchain." Paragraph 8 in the proposed TB intentionally defines "digital assets" more broadly so that the guidance will apply to the vast number of different types of digital assets, not just crypto assets, that reporting entities could potentially seize now and in the future. For example, the scope of the TB guidance could apply to security tokens, which the TB Glossary defines as, "Security tokens are digital forms of financial instruments that represent ownership in another asset, such as real estate or equity in a company."</p> <p>Staff does not recommend that the TB provide specific guidance on the factors for management to consider when using judgment to determine the most appropriate publicly observable active market for digital assets. The characteristics of each specific digital asset market are dynamic and quickly evolving and staff believes that overly prescriptive Board guidance would be too rigid to practically apply and could quickly become outdated.</p>
13	No	The FISC is not aware of any ambiguous areas remaining that could lead to challenges with implementing SFFAS 3 requirements for seized and forfeited digital assets.	No comment.
14	N/A	The exposure draft on seized and forfeited digital assets do not apply to VA. For this reason, VA does not have any comments to provide.	No comment.
15	One	As mentioned above in our response to question 1, the digital currency world is dynamic. There would need to be something authoritative to utilize to ensure only valid Central Bank Digital Currencies are reported as currency.	See staff notes for QFR 1., Ref. No. 15.

QFR 5: Do you wish to comment on any other specific aspects of this proposal?			
Ref. No.	Answer	Response	Preliminary Staff Notes
1	No		No comment.
2	No	The FHA, GNMA, and HUD Accounting Offices do not have further comment.	No comment.
3	No	Not at this time.	No comment.
4	Yes	DHS’s opinion is that there should be no recordation in the financial statements and footnotes on any seized property. Only quantity information should be provided. Once ownership is turned over to the federal government, then and only then should a monetary entry be made and reported in the financial statements and footnotes.	Staff does not recommend any further changes to the TB. Staff believes the suggested guidance changes would require amending SFFAS 3 requirements for seized property. The proposed TB clarifies existing seized and forfeited property guidance requirements in SFFAS 3 for digital assets. Staff believes it would be inappropriate for the TB, as level B guidance, to amend SFFAS 3 requirements for all seized property.
5	Yes	Agencies will need to clearly delineate between cryptocurrencies (non-monetary) and central bank currencies.	Staff agrees that reporting entities would need to apply judgement to determine whether seized and forfeited digital assets are nonmonetary or a central bank digital currency (monetary instrument) in accordance with paragraphs 16-18 of the proposed TB.
6	No	No.	No comment.
7	N/A	SSA has no comments at this time, and we defer to other agencies who may be impacted by this proposed Technical Bulletin.	No comment.
8	N/A	The Department does not have any other comments on this proposal.	No comment.
9	Yes	<p>Paragraph 21 references SFFAS 3, "Seized property shall be valued at its market value when seized, or if market value cannot be readily determined, as soon thereafter as reasonably possible." We understand that this reference is from SFFAS 3 and not the TB; however, this TB is a good place to start to clarify the exact time a digital asset is to be valued. DOJ AFMS recommends amending this statement to ". . . as soon thereafter as management determines is reasonably possible." AFMS recommends that "when seized" be amended in the TB to "on the date of seizure" or "on the date of forfeiture" to preclude any misinterpretations on the date of valuation.</p> <p>In addition, to assist in the cohesiveness of the document, recommend Paragraph 26 - "The U.S. government does not currently have a central bank digital currency." be relocated to paragraph 17/18 or the Appendix. This sentence would be more appropriate in another section.</p>	<p>Staff does not recommend any further changes to the TB. The suggested guidance changes would require amending SFFAS 3 language for seized property. The proposed TB clarifies existing seized and forfeited property guidance requirements in SFFAS 3 for digital assets. Staff believes it would be inappropriate for the TB, as level B guidance, to amend SFFAS 3 language for all seized property. Paragraphs 23-25 of the TB offer clarifying guidance for management to determine how and when it is reasonably possible to value digital assets upon seizure in accordance with existing requirements in SFFAS 3. However, staff believes management should have the flexibility to use judgment and reasonable effort to determine when to measure a market value for seized and forfeited digital assets.</p> <p>Staff agrees with the editorial suggestion and recommends moving sentence, "The U.S. government does not currently have a central bank digital currency." to a footnote in paragraph 17.</p>
10	No	Not at this time.	No comment.
11	N/A	The Department of Energy has no comments on this ED.	No comment.
12	Yes	We believe the Board should clarify in SFFAS 3 and the proposed guidance whether digital assets, especially those that are forfeited, should be revalued at each reporting date, given the potential volatility in the market for these assets, or whether they should only be valued when seized or forfeited.	Staff does not recommend that the TB provide reporting guidance on revaluing seized and forfeited digital assets. SFFAS 3 does not explicitly require periodic revaluation for seized and forfeited property. Therefore, staff believes it would be inappropriate for the TB to issue new accounting requirements to specifically revalue seized and forfeited digital assets because it would conflict with the SFFAS 34 GAAP hierarchy.
13	No	The FISC does not have any further comments on this proposal.	No comment.
14	N/A	The exposure draft on seized and forfeited digital assets do not apply to VA. For this reason, VA does not have any comments to provide.	No comment.

QFR 5: Do you wish to comment on any other specific aspects of this proposal?			
Ref. No.	Answer	Response	Preliminary Staff Notes
15	Yes	The Technical Bulletin does not address impairments such as when a digital asset (cryptocurrency) loses a substantial amount of value in relation to the initial capitalized amount.	Staff does not recommend that the TB provide reporting guidance on accounting for impairment losses for seized and forfeited digital assets. SFFAS 3 does not explicitly require impairment accounting for seized and forfeited property. Therefore, staff believes that the TB should not issue new accounting requirements to account for impairment losses specifically for seized and forfeited digital assets because it would conflict with the SFFAS 34 GAAP hierarchy.



# SEIZED AND FORFEITED DIGITAL ASSETS

**Technical Bulletin 202X-X**

**Draft**

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## 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](http://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](#)
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## SUMMARY

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This Technical Bulletin (TB) clarifies 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 clarifies that SFFAS 3 requirements in paragraphs 57-78 apply to seized and forfeited digital assets. The TB further clarifies that reporting entities should treat central bank digital currencies as monetary instruments and all other 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.

## MATERIALITY

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The provisions of this TB need not be applied to information if the effect of applying the provision(s) is immaterial.<sup>1</sup> 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.

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<sup>1</sup>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.

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## TECHNICAL GUIDANCE

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### SCOPE

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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

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7. **What are digital assets?**
8. **Digital assets**<sup>2</sup> 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 as a 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

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<sup>2</sup> 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

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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.<sup>3</sup>
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.<sup>4</sup>

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<sup>3</sup> The U.S. government does not currently have a central bank digital currency.

<sup>4</sup> 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.

## MEASUREMENT

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- 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 value<sup>6</sup> 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.”<sup>5</sup>
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.
26. 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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<sup>5</sup> Paragraphs 69-70 of SFFAS 3 also require market value reporting for forfeited property.

## DISCLOSURE REQUIREMENTS

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### **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. 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.

29. 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.

## EFFECTIVE DATE

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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

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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

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- 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 TB clarifies and elaborates upon seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3 to address the unique nature of digital assets. This guidance applies only to seized and forfeited digital assets.
- A6. For this TB, 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.<sup>6</sup> 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, which 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 TB 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 TB 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.<sup>7</sup> 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.<sup>8</sup> 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*

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<sup>6</sup> Council of Economic Advisors, *2023 Economic Report of the President*, (March 2023), 237-272.

<sup>7</sup> The White House, *Ensuring Responsible Development of Digital Assets*, Executive Order 14067 (March 9, 2022), section 9(b).

<sup>8</sup> 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 a stable store of value, which is required to serve effectively as money, due to their substantial market value volatility.

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## SUMMARY OF OUTREACH AND RESPONSES

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- A13. The Board released an exposure draft (ED) proposal on March 4, 2024, with public comments requested by April 18, 2024. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A14. FASAB received 15 comment letters in response to the ED. Respondents generally agreed with the proposed guidance. In response to the comment letters, the Board agreed to further edits to improve the structure and clarity of the guidance.
- A15. Some respondents noted that digital asset market values are especially volatile and requested that the Board provide guidance addressing whether reporting entities should periodically revalue and/or account for impairment losses for seized and forfeited digital assets. SFFAS 3 does not provide for periodic revaluation or impairment loss accounting for seized and forfeited property. Therefore, the Board agreed that this technical guidance should not provide a new reporting requirement to periodically revalue or account for impairment losses for seized and forfeited digital assets because it would conflict with the SFFAS 34 GAAP hierarchy.
- A16. One respondent suggested that certain stablecoins could be considered monetary instruments because they are highly liquid and easily convertible to cash. The Board notes that some stablecoins are pegged to the U.S. dollar and therefore are designed to have a more stable store of value. However, the Board does not believe that reporting entities should report seized and forfeited stablecoins as monetary instruments because even stablecoins that peg to the U.S. dollar are not fiat money issued and backed by a government entity, nor are they currently effective as a unit of account or medium of

exchange as discussed in paragraph A12. Furthermore, the Board believes that paragraph 16 of this TB is clear that reporting entities should account for only central bank digital currencies as monetary instruments and all other digital assets, including U.S. dollar pegged stablecoins, as nonmonetary property when applying SFFAS 3. Therefore, the Board elected to retain the guidance as proposed in the ED.

- A17. One respondent suggested that limiting reporting entities to only measuring market value for seized and forfeited digital assets based on a publicly observable active market could result in reporting and audit challenges if a particular digital asset market fluctuates between active and inactive. The Board notes that this TB only clarifies existing reporting requirements in SFFAS 3, which does not require market valuation based on inactive markets. Therefore, the Board believes this technical guidance should not provide a new reporting requirement to measure value based on an inactive market specifically for digital assets. Furthermore, the Board believes that valuing seized and forfeited digital assets based on inactive markets would lead to inaccurate information that is irrelevant and/or misleading to users. The Board believes that paragraphs 23-26 of this TB reduce preparer burden and improve user benefits by clarifying and explaining how management should use reasonable effort to measure seized and forfeited digital assets using only publicly observable active markets for the specific digital asset. Therefore, the Board elected to retain the guidance as proposed in the ED.
- A18. Some respondents requested that the proposed TB clarify other specific measurement challenges relating to seized and forfeited digital assets, including
- a. providing examples of what would not meet the definition of a publicly observable active market in accordance with paragraph 23 of the TB;
  - b. providing an authoritative source for identifying valid central bank digital currencies;
  - c. providing guidance on the factors that reporting entities should consider when determining the most appropriate publicly observable active market for each digital asset in accordance with paragraph 24 of the TB; and
  - d. providing guidance prescribing the day and time that reporting entities should measure the market value of digital assets upon seizure and forfeiture.
- A19. The Board elected not to address these measurement issues in this TB because the Board believes these questions require more prescriptive guidance based on situation-specific details that would best be addressed by agency policy and management judgment using the clarifying guidance in paragraphs 19-26 in this TB. Digital asset markets are very dynamic and the Board believes that addressing the items in paragraph A17 in this TB would result in authoritative guidance that is too rigid and would quickly become outdated.



## APPENDIX B: ABBREVIATIONS

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FASAB	Federal Accounting Standards Advisory Board
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

## APPENDIX C: GLOSSARY

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

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### 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, which 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

~~Exposure~~ Draft

~~Written comments are requested by April 18, 2024~~

~~March 4, 2024~~

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## 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](http://www.fasab.gov):

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March 4, 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 April 18, 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](mailto: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,



Monica R. Valentine  
Executive Director

## EXECUTIVE SUMMARY

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### WHAT GUIDANCE IS BEING PROPOSED?

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This Technical Bulletin (TB) ~~would~~ clarify<sup>iesy</sup> 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<sup>iesy</sup> that SFFAS 3 requirements in paragraphs 57-78 apply to seized and forfeited digital assets. The TB ~~would~~ further clarify<sup>iesy</sup> that, ~~with the exception of central bank digital currencies,~~ reporting entities should treat central bank digital currencies as monetary instruments and all other digital assets as nonmonetary property when applying the requirements of SFFAS 3. This TB ~~would~~ also provide<sup>s</sup> 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

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The provisions of this ~~proposed T~~ Technical Bulletin would not need notte be applied to information if the effect of applying the provision(s) is immaterial.<sup>1</sup> 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.

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<sup>1</sup>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.

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## QUESTIONS FOR RESPONDENTS

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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 for respondents (QFR) in this section. 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](mailto:fasab@fasab.gov). If you are unable to respond by email, please contact us at (202) 512-7350.

All responses are requested by April 18, 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 Statement of Federal Financial Accounting Standards (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 digital assets for which 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 reference the specific issues, applicable guidance, and potential solutions.

**QFR5.** ~~Do you wish to comment on any other specific aspects of this proposal?~~

## ~~PROPOSED~~ TECHNICAL GUIDANCE

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### SCOPE

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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

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7. **What are digital assets?**
8. **Digital assets**<sup>2</sup> 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 as a 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

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<sup>2</sup> 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

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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.<sup>3</sup>
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.<sup>4</sup>

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<sup>3</sup> The U.S. government does not currently have a central bank digital currency.

<sup>4</sup> 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.

## MEASUREMENT

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- 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 value<sup>6</sup> 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.”<sup>5</sup>
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.

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<sup>5</sup> 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

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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. 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.
29. 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.

## EFFECTIVE DATE

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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>
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## APPENDIX A: BASIS FOR CONCLUSIONS

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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

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- 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~~ clarifies and elaborates upon seized and forfeited property guidance in paragraphs 57-78 of SFFAS 3 to address the unique nature of digital assets. This ~~se~~ guidance ~~in this proposal~~ applies only to seized and forfeited digital assets.
- A6. For this TB ~~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.<sup>6</sup> 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, which 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 TB ~~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 TB ~~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.<sup>7</sup> 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.<sup>8</sup> 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*

<sup>6</sup> Council of Economic Advisors, *2023 Economic Report of the President*, (March 2023), 237-272.

<sup>7</sup> The White House, *Ensuring Responsible Development of Digital Assets*, Executive Order 14067 (March 9, 2022), section 9(b).

<sup>8</sup> 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 a stable store of value, which is required to serve effectively as money, due to their substantial market value volatility.

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#### SUMMARY OF OUTREACH AND RESPONSES

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- A13. The Board released an exposure draft (ED) proposal on March 4, 2024, with public comments requested by April 18, 2024. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A14. FASAB received 15 comment letters in response to the ED. Respondents generally agreed with the proposed guidance. In response to the comment letters, the Board agreed to further edits to improve the structure and clarity of the guidance.
- A15. Some respondents noted that digital asset market values are especially volatile and requested that the Board provide guidance addressing whether reporting entities should periodically revalue and/or account for impairment losses for seized and forfeited digital assets. SFFAS 3 does not provide for periodic revaluation or impairment loss accounting for seized and forfeited property. Therefore, the Board agreed that this technical guidance should not provide a new reporting requirement to periodically revalue or account for impairment losses for seized and forfeited digital assets because it would conflict with the SFFAS 34 GAAP hierarchy.
- A16. One respondent suggested that certain stablecoins could be considered monetary instruments because they are highly liquid and easily convertible to cash. The Board notes that some stablecoins are pegged to the U.S. dollar and therefore are designed to have a more stable store of value. However, the Board does not believe that reporting entities should report seized and forfeited stablecoins as monetary instruments because even stablecoins that peg to the U.S. dollar are not fiat money issued and backed by a government entity, nor are they currently effective as a unit of account or medium of

exchange as discussed in paragraph A12. Furthermore, the Board believes that paragraph 16 of this TB is clear that reporting entities should account for only central bank digital currencies as monetary instruments and all other digital assets, including U.S. dollar pegged stablecoins, as nonmonetary property when applying SFFAS 3. Therefore, the Board elected to retain the guidance as proposed in the ED.

- A17. One respondent suggested that limiting reporting entities to only measuring market value for seized and forfeited digital assets based on a publicly observable active market could result in reporting and audit challenges if a particular digital asset market fluctuates between active and inactive. The Board notes that this TB only clarifies existing reporting requirements in SFFAS 3, which does not require market valuation based on inactive markets. Therefore, the Board believes this technical guidance should not provide a new reporting requirement to measure value based on an inactive market specifically for digital assets. Furthermore, the Board believes that valuing seized and forfeited digital assets based on inactive markets would lead to inaccurate information that is irrelevant and/or misleading to users. The Board believes that paragraphs 23-26 of this TB reduce preparer burden and improve user benefits by clarifying and explaining how management should use reasonable effort to measure seized and forfeited digital assets using only publicly observable active markets for the specific digital asset. Therefore, the Board elected to retain the guidance as proposed in the ED.
- A18. Some respondents requested that the proposed TB clarify other specific measurement challenges relating to seized and forfeited digital assets, including
- a. providing examples of what would not meet the definition of a publicly observable active market in accordance with paragraph 23 of the TB;
  - b. providing an authoritative source for identifying valid central bank digital currencies;
  - c. providing guidance on the factors that reporting entities should consider when determining the most appropriate publicly observable active market for each digital asset in accordance with paragraph 24 of the TB; and
  - d. providing guidance prescribing the day and time that reporting entities should measure the market value of digital assets upon seizure and forfeiture.
- A19. The Board elected not to address these measurement issues in this TB because the Board believes these questions require more prescriptive guidance based on situation-specific details that would best be addressed by agency policy and management judgment using the clarifying guidance in paragraphs 19-26 in this TB. Digital asset markets are very dynamic and the Board believes that addressing the items in paragraph A17 in this TB would result in authoritative guidance that is too rigid and would quickly become outdated.



## APPENDIX B: ABBREVIATIONS

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

## APPENDIX C: GLOSSARY

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

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### 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, which 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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