
Technical Bulletin 2024-1: Seized and Forfeited Digital Assets

Status

Issued	June 21, 2024
Effective Date	Effective upon issuance.
Affects	Clarifies guidance in SFFAS 3, par. 57-78, for seized and forfeited digital assets.
Affected by	None.
Related Guidance	TR 4, <i>Reporting on Non-Valued Seized and Forfeited Property</i>

Summary

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

The provisions of this TB need not be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement.

¹ 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.

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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Technical Guidance

Scope

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

Definitions and Applicability

7. **What are digital assets?**
8. **Digital assets**² are electronic representations of value and operate as part of a complex and interconnected digital ecosystem. **Crypto assets**, to include **cryptocurrencies**, are a common subset of digital assets that use cryptographic techniques and distributed ledger

² Terms defined in the glossary are shown in boldface the first time they appear.

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

Reporting Considerations

12. **Should reporting entities treat seized and forfeited digital assets as monetary or nonmonetary property when applying reporting guidance in SFFAS 3?**
13. SFFAS 3 provides different reporting requirements for seized and forfeited property based on whether the property in question is considered monetary or nonmonetary.
14. Paragraph 61 of SFFAS 3 states, "Seized monetary instruments shall be recognized as seized assets when seized. In addition, a liability shall be established in an amount equal to the seized asset value." Paragraph 62 of SFFAS 3 states, "Seized property other than monetary instruments shall be disclosed in the footnotes"
15. Paragraph 69 of SFFAS 3 states, "Monetary instruments shall be reclassified from seized monetary instruments to forfeited monetary instruments when forfeited. ... When the asset is recorded, revenue shall be recognized in an amount equal to the value of the monetary instrument and the associated liability for possible remittance shall be removed." Paragraph 70 of SFFAS 3 addresses recognition of forfeited nonmonetary property by stating "property shall be recorded with an offsetting deferred revenue when forfeiture judgment is obtained." Meanwhile paragraph 72 states, "Revenue from the sale of property shall be recognized when the property is sold."

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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.³
 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.⁴
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Measurement

19. **Are there special considerations with determining market value for seized and forfeited digital assets?**
20. Some reporting entities have raised concerns about whether management can accurately measure market value for digital assets. Many forms of digital assets are not bought or sold in a typical market. Furthermore, digital asset markets that do exist are sometimes not well established or regulated and could therefore quote volatile and unreliable values. Reporting inaccurate and/or unreliable market values for seized and forfeited digital assets could result in financial information that is misleading and/or lacks relevance.
21. Paragraph 63 of SFFAS 3 states, "Seized property shall be valued at its market value⁶ when seized or, if market value cannot be readily determined, as soon thereafter as reasonably possible. Market value shall be based on the value of the property assuming an active market exists for the property."⁵

³ As of the issuance date of this TB, the U.S. government does not have a central bank digital currency.

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

⁵ Paragraphs 69-70 of SFFAS 3 also require market value reporting for forfeited property.

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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.

Disclosure Requirements

27. **What information should reporting entities disclose about seized and forfeited digital assets?**
28. Reporting entities should apply the disclosure requirements of paragraphs 66 and 78 of SFFAS 3 for seized and forfeited digital assets, respectively. 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.

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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

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

<p>The provisions of this Statement 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

The Federal Accounting Standards Advisory Board (FASAB) has authorized its staff to prepare Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's Rules of Procedures, as amended and restated through August 2023, and the procedures described in FASAB Technical Bulletin 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items.

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

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

Project History

- A1. The Federal Accounting Standards Advisory Board (FASAB or "the Board") issued SFFAS 3 in 1993. Paragraphs 57-78 of SFFAS 3 provide reporting requirements for seized and forfeited property. The Board subsequently issued Technical Release 4, *Reporting on Non-Valued Seized and Forfeited Property*, in 1999 to establish that an analysis of changes for all material non-valued seized property should be disclosed in the financial statement footnotes in the same manner as prescribed for non-valued forfeited property.
- A2. The Board had planned to deliberate reporting guidance needs for digital assets as part of the software technology project scope. However, as seized and forfeited digital assets have become more significant in recent years, the Board has received several requests from reporting entities and auditors for further guidance and clarification on applying the existing seized and forfeited property reporting requirements in SFFAS 3 to new and unique characteristics of digital assets.
- A3. Digital assets were not originally contemplated when FASAB issued SFFAS 3, and the Board has never previously issued guidance pertaining to digital assets. The Board is not

aware of any other significant uses of digital assets in the federal government. Some reporting entities have indicated purchasing an immaterial amount of cryptocurrency for operational purposes.

- A4. Staff convened a working group to draft and propose a TB for the Board's consideration. Staff consulted extensively with preparers and auditors that deal with seized and forfeited digital assets.
- A5. The Board agrees that in accordance with paragraph 4 of TB 2000-1, *Purpose and Scope of 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. The TB does not apply to any digital asset transactions other than for seized and forfeited property. The Board believes this TB reduces preparer burden regarding uncertainties in applying SFFAS 3 requirements and facilitates reporting consistency for 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.⁶ 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.

⁶ Council of Economic Advisers, *2023 Economic Report of the President*, (March 2023), 237-272.

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- 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.⁷ 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.⁸ 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 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.

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

⁸ Board of Governors of the Federal Reserve System, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation* (January 2022).

Summary of Outreach and Responses

- 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 guidance does not require periodic revaluation or impairment loss accounting for seized and forfeited property, and the Board concluded this TB does not need to clarify this point further for seized and forfeited digital assets.
- 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. Additionally, there could be other current or future digital assets backed by reserve monetary assets, such as the U.S. dollar or foreign currencies. However, the Board concluded that reporting entities should not report seized and forfeited stablecoins as monetary instruments because even digital assets that peg to the U.S. dollar, or a foreign currency, 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 concluded 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 and foreign currency 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 concluded 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 concluded it could be burdensome for preparers to measure seized and forfeited digital assets based on inactive markets and could 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 concluded 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 concluded that addressing the items in paragraph A18 in this TB would result in authoritative guidance that is too rigid and would quickly become outdated.

Board Review

A20. The Board has reviewed this TB, and a majority of members do not object to its issuance.

Appendix B: Abbreviations

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

Appendix C: Glossary

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

Digital asset

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

Crypto asset

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

Cryptocurrency

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

Central bank digital currency

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

Fiat money

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