

SFFAS 3: TB 2024-1
Accounting for Seized and
Forfeited Digital Assets

What Financial Leaders Should Know

In November 2022, the DOJ seized \$3.36 billion in Bitcoin, which was the largest digital asset seizure at the time.

Background

In today's dynamic financial digital landscape, there is emphasis on how the accounting standards can maintain consistency and accuracy across Federal stakeholders. As federal government agencies like the Department of Justice (DOJ), Department of Homeland Security (DHS), and the Internal Revenue Service (IRS) navigate through this complexity, stakeholders are expecting accurate, timely, and comprehensive digital asset information to make informed decisions. In November 2022, the DOJ seized \$3.36 billion in Bitcoin, which was the largest digital asset seizure at the time.¹ Since 2022, there has been a rise in seized and forfeited digital assets, at DOJ, DHS, IRS and other agencies raising anticipation of materiality impacting financial reporting. Historically the Statement of Federal Financial Accounting Standards (SFFAS) 3, Accounting for Inventory and Related Property did not provide clear guidance to address the reporting considerations of monetary versus nonmonetary property, accurate financial measurement, and financial statement disclosure requirements for seized and forfeited digital assets.

The Federal Accounting Standards Advisory Boards (FASAB), the governing body responsible for accounting standards for the U.S. Government, determined a new technical bulletin (TB) was necessary to reduce risks that are inherent to digital assets, including defining reporting considerations (#1), expectations for fair value measurement (#2), and setting financial statement disclosure requirements (#3). The new amendment emphasizes seized and forfeited property and sets a new change in generally accepted accounting principles (GAAP).²

What is a Digital Asset?

Cryptocurrency is “a common subset of digital assets that use cryptographic techniques and distributed ledger technology,” are “electronic representations of value, and operate as part of a complex and interconnected digital ecosystem.” Examples of digital assets are “stable coins, non-fungible tokens, central bank digital currencies, security tokens, and privacy coins.”²

Seized vs. Forfeited Digital Assets

Asset seizure and forfeiture are forms of confiscating assets by governmental authorities, typically in consequence of an alleged violation of public law. Any type of asset can be seized or forfeited, including digital assets.

- **Seized assets:** An asset is considered seized when the government has taken custodial possession of the asset due to illegal activities. The seizing and custodial agencies are responsible for the management and accurate reporting of seized assets.
- **Forfeited assets:** An asset is considered forfeited when the asset title has passed to the US Government once the forfeiture is judicially approved.

Subsequent to the approved forfeiture decision, the assets are often liquidated for monetary proceeds and deposited into the Assets Forfeiture Fund (AFF) or Treasury Executive Office for Asset Forfeiture (TEOAF) for use for any necessary expenses such as the seizure, forfeiture, and disposal expenses, victim compensation, or certain investigative costs.

¹ <https://www.justice.gov/usao-sdny/pr/us-attorney-announces-historic-336-billion-cryptocurrency-seizure-and-conviction>

² FASAB, The Federal Accounting Standards Advisory Boards, Standards and Guidance, Technical Bulletin 2024-1 – Seized and Forfeited Digital Assets, page 3, June 21, 2024.

**FASAB SFFAS 3
Technical Bulletin 2024-1:
Seized and Forfeited
Digital Assets**

Objectives, at a glance:

1. Defining Reporting Considerations
2. Expectations for Fair Value Measurement
3. Setting Financial Statement Disclosure Requirements

FASAB SFFAS 3 TB Objective #1: Reporting Considerations

The new accounting guidance classifies digital assets as either non-monetary or monetary instruments, which carries different accounting treatment. The table below captures the reporting considerations for seized and forfeited monetary and non-monetary digital assets.

	Nonmonetary Property	Monetary Property
Seized	<ul style="list-style-type: none"> • Valued on Seizure Date • Disclosed in Financial Statement Footnotes 	<ul style="list-style-type: none"> • Valued on Seizure Date • Asset and Liability Recognition in Financial Statements
Forfeited	<ul style="list-style-type: none"> • Valued on Forfeiture Date • Asset and Deferred Revenue Recognition • Revenue Recognition when Property is Sold 	<ul style="list-style-type: none"> • Valued on Forfeiture Date • Remove Liability Established at Seizure • Revenue Recognition

Central bank digital currencies, issued by a country's Central Bank, are "official digital forms of government-backed money that essentially serve the same purposes as physical cash"³ and are considered "a form of digital money or monetary value, denominated in the national unit of account that is a direct liability of the central bank."⁴ All other digital assets are considered nonmonetary instruments, such as commonly seized cryptocurrency.

FASAB SFFAS 3 TB Objective #2: Fair Value Measurement

Applying a consistent valuation methodology across the U.S. Government improves transparency for how reporting entities determine market value and reduce the risk of inaccurate financial statements. A consistent valuation method results in federal agencies recording seized and forfeited digital assets in a standardized way, which is critical for the U.S. Government consolidated financial statements. Reporting entities are to only report a market value for seized or forfeited digital assets if a publicly observable active market exists. The seized and forfeited digital assets must be valued at market value on the date of seizure or forfeiture. If the market value cannot be readily determined for that date, as soon thereafter as reasonably possible. It is assumed an active market exists for the digital asset when determining market value.

- **Market value** is the estimated amount achievable through the sale of an item in an arm's-length transaction, or the price at which genuine sales have occurred for similar products in a particular market at any given time.
- A **readily determinable value** is a market value that is conclusively established and available on the open market.
- A **publicly observable market** is one that is readily visible and accessible to anyone with relevant information requirements.
- An **active market** is an established market in which transactions of this type of asset frequently occur, as such, pricing information is current and relevant.

³ FASAB, The Federal Accounting Standards Advisory Board, Standards and Guidance, Technical Bulletin 2024-1 – Seized and Forfeited Digital Assets, page 4, June 21, 2024.

⁴ FASAB, The Federal Accounting Standards Advisory Board, Standards and Guidance, Technical Bulletin 2024-1 – Seized and Forfeited Digital Assets, page 4, June 21, 2024.

Guidehouse stands poised to assist federal government agencies and private sector organizations in navigating the intricate landscape of seized and forfeited digital assets.

FASAB SFFAS 3 TB Objective #3: Financial Statement Disclosure Requirements

- SFFAS 3, paragraphs 66 and 78, establish the note disclosure requirements of seized and forfeited digital assets. There are no additions or deletions in this TB.
- Disclosing the dollar value and quantity of seized and forfeited assets by asset type is a requirement. Specific quantitative or qualitative information for individual digital asset seizures or forfeitures is not required to be disclosed.
- If a reporting entity is not able to reasonably determine a market value, the other SFFAS 3 disclosure requirements apply.

How Can Guidehouse Help?

Guidehouse stands poised to assist federal government agencies and private sector organizations in navigating the intricate landscape of seized and forfeited digital assets. Leveraging our extensive expertise in financial management, digital asset accounting, risk mitigation, internal control compliance, and quality assurance, we offer unique solutions to address the diverse challenges faced by clients in this domain. The Guidehouse team can provide financial management consultation services through our experience in the following areas specific to digital asset management:

Guidehouse Relevant Capabilities

- Audit Readiness of Seized and Forfeited Digital Assets
- Implementing Effective and Sufficient Internal Controls
- Reduce Inherent Risk of Digital Assets
- Digital Asset Value and Inventory Reconciliations
- Compliancy and Risk Management
- Designing Standard Audit Review Procedures for Digital Assets
- Financial Management Accuracy with Asset Management Systems
- Accounting and Monitoring Digital Assets
- Enabling Informed Decision-Making

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About Guidehouse

Guidehouse empowers clients to effectively manage digital assets with confidence, integrity, and compliance. We are committed to delivering value-driven solutions that enable clients to achieve their goals and navigate the complex digital asset landscape successfully. Guidehouse is a leading global provider of consulting services to federal agencies, public sector, and commercial markets, with broad capabilities in management, technology, and risk consulting. By combining our public and private sector expertise, we help clients address their most complex challenges and navigate significant regulatory pressures. We create scalable, innovative solutions that help our clients outwit complexity and position them for future growth and success. The company has more than 16,000 professionals in over 55 locations globally. Guidehouse is a Bain Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets, and agenda-setting issues driving national and global economies. For more information, please visit www.guidehouse.com.

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