

Celsius Litigation: Framework for Valuing Digital Assets in Avoidance Actions

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By Albena Petrakov



In a recent decision addressing a question raised by the crypto winter, the United States Bankruptcy Court for the Southern District of New York outlined a framework for valuing digital assets recovered through bankruptcy avoidance actions. The ruling is noteworthy because it confronts an issue that traditional bankruptcy jurisprudence has rarely faced: volatile, highly liquid assets that can dramatically increase or decrease in value in a short period of time. As Judge Glenn observed, digital assets differ from traditional property because they are easily transferable, actively traded, and subject to significant market fluctuations.

In the Celsius litigation, the court had to determine:

“1. Is the Litigation Administrator entitled to recover (a) the allegedly transferred digital assets if they remain in the applicable Defendant’s possession, custody or control or, alternatively, (b) their value?

2. If the Litigation Administrator is entitled to recover the value of any allegedly transferred digital assets, what value is the Litigation Administrator entitled to recover if the allegedly transferred digital assets:

- i. Have appreciated since they were transferred from Celsius?
- ii. Have depreciated since they were transferred from Celsius?”

In re Celsius Network, LLC, No. 22-10964-MG, 2026 WL 1999187, at *1 (Bankr. S.D.N.Y. July 10, 2026)

The litigation administrator claimed that the appropriate measure of damages is either (1) the return of the digital asset or (2) the market price of the asset if the asset appreciated. In the event the transferred asset has depreciated, the litigation administrator claimed that the court should award the market price of the digital asset on the date of the transfer.

Section 550 of the Bankruptcy Code allows a trustee or estate representative to recover either the property transferred or, if the court so orders, the value of that property. The Bankruptcy Code, however, does not specify how value should be measured when the property fluctuates in price after the transfer. Judge Glenn therefore turned to the statute’s underlying purpose: restore the estate to the position it would have occupied had the transfer never occurred.

The Court’s Three-Part Framework

Judge Glenn ultimately adopted a practical framework designed to balance three competing concerns:

- Making the estate whole
- Preventing preference defendants from profiting from avoidable transfers
- Avoiding unfair or potentially limitless liability resulting from cryptocurrency market volatility

The court held:

- For depreciating assets, the estate may recover the transfer-date value, regardless of whether the defendant still holds the asset.
- For appreciating assets still held by the defendant, the estate may recover the asset itself.
- For appreciating assets that have been sold, the estate may recover the sale price obtained by the defendant. The defendant bears the burden of proving both that the asset was sold and the amount for which it was sold. If the defendant cannot establish those facts, the estate may recover the judgment-date value.

This framework represents an effort to tailor traditional avoidance principles to the realities of cryptocurrency markets.

The Decision Regarding Depreciating Assets is Based on Well-Established Precedent

Judge Glenn's analysis began with what he viewed as the easier question: assets that declined in value after transfer. The court emphasized that the purpose of § 550 is restorative rather than punitive. If a cryptocurrency worth \$100,000 at the time of transfer later falls to \$10,000, requiring the estate to accept only the depreciated asset or its current value would leave the estate substantially worse off than if the transfer had never occurred. In effect, the bankruptcy estate would bear the entire market loss.

Relying on prior fraudulent transfer and avoidance precedent, Judge Glenn concluded that transfer-date value is the proper measure for depreciating property because it restores the estate to the financial position it would have occupied absent the transfer. The court reasoned that allowing only recovery of the current value would undermine the statute's remedial purpose.

Why the Court Rejected Judgment-Date Value for Appreciating Crypto

The more difficult issue involved assets that appreciated after transfer. The litigation administrator argued that appreciation should inure to the benefit of the estate because, had the transfer never occurred, the estate would have retained the asset and potentially realized the upside. The argument found support in cases involving real estate and other appreciating property. Judge Glenn, however, distinguished digital assets from many traditional forms of property. He noted that cryptocurrency is extraordinarily liquid, highly volatile, and can be sold almost instantaneously. Moreover, unlike real estate, many transferees no longer possess the specific assets that were transferred.

The court was particularly concerned that imposing judgment-date valuation on a defendant who sold cryptocurrency years earlier could create what it described as "essentially limitless liability." A customer who withdrew and sold Bitcoin long ago could be exposed to damages tied to market increases occurring long after the asset had been disposed of. The court concluded that such a result would be inequitable.

Judge Glenn also observed that there was no evidence that Celsius would necessarily have held the assets through the period of appreciation. The company may have sold, rebalanced, hedged, or otherwise deployed the assets. Awarding judgment-date appreciation therefore risked providing the estate with a windfall rather than merely restoring it.

The Court's Middle Ground

Rather than adopting either transfer-date value or full judgment-date value as a universal rule, Judge Glenn crafted a middle-ground approach.

If a defendant still possesses an appreciating digital asset, the estate may recover the asset itself and thereby receive the

benefit of appreciation. That result mirrors what would have occurred had the transfer never happened. If the defendant sold the asset, however, recovery is limited to the benefit actually realized through the sale. The estate receives the sale proceeds, including any appreciation captured by the defendant, but not speculative gains that accrued after disposition.

In the court's view, this approach honors Congressional concern regarding a "wait-and-see" strategy by transferees while avoiding exposure to unlimited liability based solely on subsequent market movements.

Practical Takeaways for Digital Asset Holders

Judge Glenn's decision represents one of the first comprehensive attempts to address how cryptocurrency should be valued in bankruptcy avoidance actions. Rather than applying a rigid valuation date, the court adopted a flexible framework that distinguishes between appreciating and depreciating assets and considers whether the cryptocurrency remains in the transferee's possession. The ruling seeks to restore the estate and avoid imposing limitless liability driven solely by crypto market volatility. For digital asset holders, the message is clear: maintain thorough records, understand the risks of later-avoidable transfers, and recognize that post-transfer appreciation may not always belong to the party currently holding the coins.