

## Exploring Digital (Crypto) Assets

	<b>Lesson: Exploring Digital (Crypto) Assets</b>
	<i>Exploring Digital (Crypto) Assets</i> is a 60-minute interactive lesson. The goal of this course is to provide service members with the information and resources needed to make informed decisions about owning Digital and Crypto assets, understand high-level tax implications of Digital and Crypto assets, increase their knowledge regarding Digital and Crypto asset-related fraud and scams, and understand how to submit consumer complaints regarding digital asset-related fraud.
	<b>Terminal Learning Objectives</b> At the conclusion of this lesson, learners should be able to: <ul style="list-style-type: none"><li>• Identify types of digital assets.</li><li>• Identify risks of investing in digital assets.</li><li>• Identify and warn against common practices employed by perpetrators of fraud, theft, scams, and other unlawful practices.</li><li>• Identify reporting procedures and submit consumer complaints to include complaints related to fraud, theft, and scams.</li><li>• Evaluate personal tax treatment and consequences related to digital assets.</li></ul>
	<b>Learning Activities and Discussions</b> This lesson contains 3 activities and 4 group discussions: <ul style="list-style-type: none"><li>• Introduction and Attention Getter Group Discussion</li><li>• Topic 1 Group Discussion</li><li>• Topic 2 Group Activity</li><li>• Topic 3 Group Activity 1 &amp; 2</li><li>• Topic 4 Group Discussion</li><li>• Topic 5 Group Discussion</li></ul>

# Exploring Digital (Crypto) Assets



## Content Outline

- Welcome and Introduction (5 minutes)
  - Welcome
  - Attention Getter group discussion
  - Facilitator Introduction
  - Disclaimer
  - Agenda
- Topic 1: Types of Digital Assets (10 minutes)
  - What is a Digital Asset?
  - The Digital Asset Ecosystem
  - Terms to Know
    - Bitcoin
    - Blockchain
    - Non-Fungible Tokens (NFTs)
  - More Terms to Know
  - More Terms to Know (cont.)
- Topic 2: Investing in Digital Assets and the Associated Risks (15 minutes)
  - General Risks of Investing
  - Investing or Gambling?
  - The Investment Spectrum
  - Digital Asset Investing Risks
    - Market Risks
    - Operational Risks
    - Fraud Risks
    - Cybersecurity Risks
- Topic 3: Frauds, Scams, and Unlawful Practices (10 minutes)
  - Frauds, Thefts, and Scams Examples
    - Investment Scams
    - Blackmail Scams
    - Business, Government, and Job Scams
    - Online Gaming and Social Media Scams
  - Red Flags
  - Personal Impact of Digital Asset Fraud

## Exploring Digital (Crypto) Assets

	<ul style="list-style-type: none"> <li>○ If You Experience Digital Asset Fraud</li> <li>○ Be Cautious and Beware!</li> <li>• Topic 4: How to Report Frauds, Thefts, And Scams (5 minutes) <ul style="list-style-type: none"> <li>○ Submitting a Complaint</li> <li>○ Reporting Frauds and Scams</li> </ul> </li> <li>• Topic 5: Potential Tax Implications (5 minutes) <ul style="list-style-type: none"> <li>○ Tax Treatment of Digital Assets</li> <li>○ Common Transactions to Report</li> <li>○ Common Transactions to Report (cont.)</li> <li>○ Tracking Your Potential Tax Liability</li> </ul> </li> <li>• Summary and Conclusion (2 minutes) <ul style="list-style-type: none"> <li>○ Summary and Review</li> <li>○ Final Questions</li> </ul> </li> </ul>
	<p><b>Training Materials</b></p> <p>A laptop, projector, and screen are needed to project the PowerPoint presentation during the training session. You will also need the following items to conduct the session:</p> <ul style="list-style-type: none"> <li>• PowerPoint Presentation: Exploring Digital (Crypto) Assets</li> <li>• Handouts: <ul style="list-style-type: none"> <li>○ CFTC Key Terms</li> <li>○ CFTC Red Flags</li> <li>○ Tax Implications of Digital Assets</li> </ul> </li> <li>• Large chart paper or dry erase board (optional)</li> <li>• Markers and/or dry erase markers (optional)</li> <li>• Internet connection (optional)</li> </ul>
	<p><b>Using This Instructor Guide</b></p> <p>The presenter is the most important part of delivering information. Make sure to familiarize yourself with the content in the lesson so that you can effectively discuss each key point during the training session. Review the material and practice delivering the content ahead of time in order to feel comfortable covering the material in your own words.</p> <p>To use this Instructor Guide, review its various parts and components below.</p>
	<p>An <b>Instructor Note</b> provides guidance for the instructor in presenting the discussion points. This section also includes specific instructions on using the media, activities for learners, and references to any other documents or content.</p>

## Exploring Digital (Crypto) Assets

	Content following <b>Say</b> : Provides a script to help you cover the material on the slide. Personalizing the information provided is acceptable and even encouraged to help make the presentation “your own.” However, be sure your personalization does not result in inaccurate or incorrect information being provided and that it does not cross the line into providing investment or tax advice.
	This symbol indicates a handout is associated with the content.
	This symbol indicates a discussion activity is associated with the content.
	<p><b>Course Preparation</b></p> <p>Being prepared for training promotes organization, projects a positive image, and reduces stress. To ensure you are prepared, review the following:</p> <ul style="list-style-type: none"> <li>• This instructor guide</li> <li>• Exploring Digital (Crypto) Assets PowerPoint presentation</li> <li>• Instructor resources listed at the end of each topic</li> <li>• Online Research: <ul style="list-style-type: none"> <li>Reviewing Internet resources can help instructors gain a better understanding of digital assets terms. However, caution should be exercised before accepting as true what you read. The relative newness and social media buzz surrounding this subject creates an environment where substantial money can be made by creating content regarding it – even if that content is inaccurate. This, combined with the fact that many aspects of these assets are only lightly regulated or not regulated at all, creates an environment where much of the internet educational content on digital assets is likely to be incorrect or misleading.</li> </ul> </li> </ul>
	<p><b>Personalize your lesson</b></p> <p>Use the white space on the left side of the page to add your own notes and prompts for discussions.</p> <p>You can fill it with:</p> <ul style="list-style-type: none"> <li>• Subject matter</li> <li>• Detailed/technical information</li> <li>• Instructional strategies and methods</li> <li>• Personal experiences</li> <li>• Examples and analogies</li> </ul>

## Course Background Information

The following content is provided for you to have historical and contextual background for the course. You may use this content as part of your attention getter and course opener.

### The Original Idea Behind Cryptocurrencies

In 2008, the financial crisis occurred, and an idea emerged online to create a truly peer-to-peer online payment system. The core concept was to take the banks and middlemen out of the equation and create a digital payment system whereby one person can pay another person directly, not involving central banks and other authorities and not incurring their associated costs, delays, and ability to influence and control the system.

To accomplish this, while still having the system be trustworthy, the inventors of the first broadly used cryptocurrency, Bitcoin, developed a network consisting of thousands of nodes on which copies of its ledger are distributed. The network uses cryptographic technology to keep it secure.

### The Current Evolution


Digital assets take many forms, of which one of the most widely recognized and talked about is virtual currencies and/or crypto assets. The digital asset ecosystem is the larger umbrella under which virtual currencies and tokens fall under. Cryptocurrencies are often purchased through platforms, commonly called exchanges, which are not regulated or supervised like traditional commodity, option, or securities exchanges.

In November 2021, the market capitalization for all cryptocurrencies reached an all-time high of approximately \$2.9 trillion. During Superbowl LVI, multiple commercials promoted crypto asset companies and many celebrities, athletes, and social media influencers have promoted or touted crypto assets as an investment many do not want to miss out on, with the ability to make vast amounts of wealth. The phrase “FOMO” or Fear of Missing Out has played into how people look at digital assets, with many witnessing how some of these tokens have exploded in value over a few short years. It’s easy for many to look at it as the golden ticket; that if they just hold onto it long enough, they’ll eventually be a millionaire. There are even cryptocurrencies created specifically to market to the military community such as Military Finance (MIL).

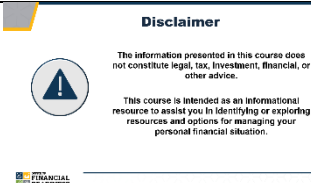
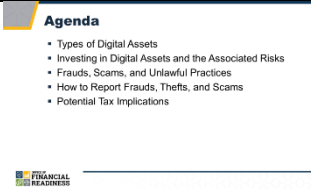
### What Potential Digital Asset Investors Need to Know

As with everything, there are two sides to the “coin” here, and during this course we’ll go into more detail about both Digital assets and what people should know when considering them. While it may not be necessary for service members to understand all of the history of digital assets, it is important they spend time learning more about this area before committing any of their hard-earned funds to it.

# Exploring Digital (Crypto) Assets

	<p>Digital assets come with investment risks, partially because the category doesn't have a long track record. It's proven thus far to be very volatile with wild price swings over relatively short periods of time, and it's a lot more speculative in nature than most traditional financial investments.</p> <p>In addition to the investment risks, there are also substantial risks of fraud and scams given the relatively unregulated nature of this market. Considering all of this, it's important for potential investors to know what they're getting into before jumping in.</p> <p>There are also tax implications that should be considered.</p> <p>Finally, when delivering the presentation, keep top of mind that military financial counselors may only provide financial education and are not permitted to offer legal advice or investment advice of any kind.</p>
 <p>Slide 1</p>	<h2>Welcome and Introduction</h2> <p><b>Instructor Note:</b> Display slide 1 and welcome learners to the <i>Exploring Digital (Crypto) Assets</i> lesson.</p> <p>This first section contains three slides intended to kick off the course and get the class engaged. It begins with an attention getting exercise in which you share a story of overhearing someone talking about how much money they've made in crypto. This story can either be the hypothetical example provided below or it can be a personal story of something similar you've experienced. <u>It is critical as part of this exercise to point out that even though the story you're sharing is one with a positive outcome, not all digital or crypto asset stories end similarly and in fact, many end up with people losing money.</u></p> <p>It's also important to emphasize that the purpose of the course is education, not advice, and you're not there to try to convince them to invest in digital or crypto assets, or to avoid them. You're there to educate them on the topic.</p> <p>You will then introduce yourself and your background and read the disclaimer verbatim to re-emphasize the non-advice nature of the course. The section concludes with an overview of the agenda.</p> <p><b>Attention Getter</b></p> <p><b>Say:</b> So, picture this – you're talking to your friend, and you overhear someone talking about how they made A LOT of money with crypto and barely did a thing.</p> <p>You overhear that they purchased \$1,000 worth of crypto and doubled their money in less than 2 months.</p> <p>Why does it feel like everyone is buying crypto these days and making money, except you! The fear of missing out (FOMO) has you ready to invest, but you don't understand how this stuff works.</p> <p>In fact, all this Crypto talk feels like a foreign language that you don't speak or even know where to find a trustworthy translator!</p>

# Exploring Digital (Crypto) Assets

	<p><b>Instructor Note:</b> The intent of this opening exercise is to get the class engaged and pique their interest. Again though, it is important NOT to set a tone that could lead learners to believe they should invest in digital assets or that you are going to show them how to replicate the story you just relayed.</p> <p><b>Say:</b> Has anyone heard similar stories? <b>[rhetorical question]</b> Here's the thing though: There are probably just as many stories of people who have lost money investing in digital assets or crypto, you just won't hear people bragging about those situations to their friends.</p> <p>And to be clear, the purpose of this course is to educate you on the topic of digital and crypto assets. We're not here to suggest you invest in them, or to tell you not to. We're simply here to broaden your understanding of this area of investments.</p> <p>Ask learners what types of digital (crypto) assets they are familiar with? <b>[Don't offer input...just acknowledge responses]</b></p> <p>Use information from the Course Background Information section as needed to supplement the attention getter and course introduction.</p> <p><b>Facilitator Introduction</b></p> <p>Introduce yourself by providing:</p> <ul style="list-style-type: none"> <li>• Your name</li> <li>• Your experience with the lesson topic, financial counseling experience, and/or professional/educational background</li> </ul>
 <p><b>Disclaimer</b></p> <p>The information presented in this course does not constitute legal, tax, investment, financial, or other advice.</p> <p>This course is intended as an informational resource to assist you in identifying or exploring resources and options for managing your personal financial situation.</p> <p>OFFICE OF FINANCIAL READINESS</p> <p>Slide 2</p>	<p><b>Disclaimer</b></p> <p><b>Instructor Note:</b> Display slide 2. Read the disclaimer verbatim to re-emphasize the non-advice nature of the course.</p> <p><b>Say:</b> The information presented in this course does not constitute legal, tax, investment, financial, or other advice. This lesson is intended as an informational resource to assist you in identifying or exploring resources and options for managing your personal financial situation.</p>
 <p><b>Agenda</b></p> <ul style="list-style-type: none"> <li>• Types of Digital Assets</li> <li>• Investing in Digital Assets and the Associated Risks</li> <li>• Frauds, Scams, and Unlawful Practices</li> <li>• How to Report Frauds, Thefts, and Scams</li> <li>• Potential Tax Implications</li> </ul> <p>OFFICE OF FINANCIAL READINESS</p> <p>Slide 3</p>	<p><b>Agenda</b></p> <p><b>Instructor Note:</b> Display slide 3. Briefly introduce the lesson topics.</p> <p><b>Say:</b> In this lesson we will cover the following topics:</p> <ul style="list-style-type: none"> <li>• Types of Digital Assets</li> <li>• Investing in Digital Assets and the Associated Risks</li> <li>• Frauds, Scams, and Unlawful Practices</li> <li>• How to Report Frauds, Thefts, and Scams</li> <li>• Potential Tax Implications</li> </ul>



# Exploring Digital (Crypto) Assets

## Types of Digital (Crypto) Assets

Slide 4

### Topic 1. Types of Digital Assets

**Instructor Note:** Display slide 4.

This section consists of 9 slides which are primarily focused on providing an understanding of the digital and crypto assets ecosystem as well as covering some of the core terminology learners should know.

The first two slides provide a high-level understanding of the landscape, beginning with an overview of digital assets then an animated slide covering a basic view of the overall digital asset ecosystem.

The seven remaining slides provide definitions of some of the key terms one should know regarding the digital asset space. Specifically covered on individual slides are Bitcoin, Blockchain, and Non-fungible tokens. Then Crypto Wallets, Native Coins, and Crypto Tokens are grouped on single slide as are Stablecoins, and Central Bank Digital Currencies (CBDCs).

The section ends with a group exercise intended to help reinforce some of the learning objectives.

**Say:** Before we can speak the language of Digital Assets, we must first learn some of the basics.

To be fair, the topics you all mentioned a minute ago are all part of the Digital Asset world **[acknowledge responses from attention getter]**, and we'll go a little deeper on some of them in our time today ...

Before we get started, I first want to clarify that while you may have heard the terms digital asset and crypto asset used interchangeably, they are not the same. As we will discuss, crypto assets are essentially a subset of digital assets. To keep things simple, we'll use the term digital assets throughout this course, and only mention crypto when speaking specifically about crypto assets and cryptocurrencies.

Now, let's start with a basic question, "What exactly is a digital asset?"

## What is a Digital Asset?

- 3 Primary Characteristics:
  - Stored and transmitted electronically
  - Has ownership or use rights
  - Has value
- Includes things like:
  - Cryptocurrencies
  - Nonfungible tokens (NFTs)
  - Central Bank Digital Currency
  - Digital photos
  - Websites
  - Electronic files, logos



Slide 5

### What is a Digital Asset?

**Instructor Note:** Display slide 5.

**Say:** In very simple terms, a digital asset is anything that:

1. Can be stored and transmitted electronically
2. Has associated ownership or use rights
3. Has value

Said differently, it's something you can own that's digital in nature that's worth something.

The broad category includes newer entries like cryptocurrencies and nonfungible tokens (NFTs), but it also includes some "older," perhaps less-exciting technologies like digital photos, websites, electronic files, logos and even presentations like this one.

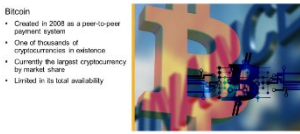

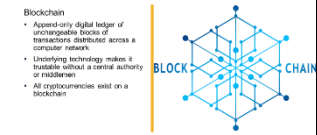

Again, think digital, ownership, and value.






# Exploring Digital (Crypto) Assets

	<p>With that as a foundation, let's drill down a bit into the world of digital assets and explain the ecosystem a bit more.</p>
<div data-bbox="162 283 487 462"> <p>The diagram illustrates the Digital Asset Ecosystem as a multi-layered structure. At the top is 'Digital Assets'. Below it are 'Crypto-assets' and 'Central Bank Digital Currencies'. The next layer is 'Layer 1 coins (Bitcoin, Ethereum)'. Below that is 'Layer 2 (Ripple, Stellar)'. The bottom layer is divided into 'Stablecoins', 'Governance tokens', 'Utility tokens', 'Non-fungible tokens (NFTs)', and 'Others'. A vertical arrow on the right indicates a 'General' to 'Specific' progression. The text 'Slide 6' is centered below the diagram.</p> </div> <p>Slide 6</p>	<h2>The Digital Asset Ecosystem?</h2> <p><b>Instructor Note:</b> Display slide 6. This slide has 3 animations. Click to play them when indicated below.</p> <p><b>Say:</b> What we've got here is a chart offering a high level look at how one might organize the world of digital assets. As you can see from the arrow on the right, the top of the chart is showing general labels or categories, and as we move toward the bottom, we get more specific. We'll cover some of these terms here and others we'll look more closely at in a few minutes.</p> <p>At the very top we start with Digital Assets in the broad sense, which we spoke about on the previous slide. Then, we move down to the first sort of separation, which is one between Crypto Assets and Central Bank Digital Currencies (CBDCs). This is where we really start getting into the use of encryption and cryptographic technologies to securely store things.</p> <p>We'll briefly talk about Central Bank Digital Currencies soon, but for now, know that when you hear the term crypto assets, we're essentially talking about all digital assets minus Central Bank Digital Currencies.</p> <p>Next, we have what could be called layer one and layer two coins or tokens.</p> <p><b>Instructor Note:</b> Click to play animation.</p> <p>The big distinction here is that layer one coins run on their own blockchain network. They own the network and the coins only trade on that network. For those of you familiar with it, an example of this would be the cryptocurrency Bitcoin.</p> <p><b>Instructor Note:</b> Click to play animation.</p> <p>Layer two coins, on the other hand, are built on top of existing blockchain networks. This is also where smart contracts (which you may have heard of) fall on within the ecosystem. For instance, the Ethereum blockchain, which would fall here.</p> <p>And then you see the bottom level is sort of a further division of different types of tokens including Stablecoins and NFTs, both of which we'll look at here briefly in just a minute.</p> <p><b>Instructor Note:</b> Click to play animation.</p> <p>So, when you look at all of this together, it's essentially everything you see here on the left that is broadly referred to as cryptocurrency.</p> <p>While Bitcoin was the first successful cryptocurrency, there are now thousands of different cryptocurrencies in the market. That said, it's worth noting that as of the beginning of 2023, the combined 10 largest cryptocurrencies in terms of market value made up the majority of the</p>

# Exploring Digital (Crypto) Assets

	<p>crypto market's overall value, so even though there are thousands of cryptocurrencies out there, many of them aren't worth much at all.</p> <p><b>Ask:</b> Are there any questions on any of this?</p> <p>We've hit on several digital asset terms so far, so let's take a few minutes and make sure we define some of them and some other key terms you should know about.</p>
<p><b>Terms to Know – Bitcoin</b></p>  <p>Slide 7</p> 	<p><b>Terms to Know – Bitcoin</b></p> <p><b>Instructor Note:</b> Display slide and refer students to the CFTC terms handout.</p> <p><b>Say:</b> Our first Term to Know is Bitcoin, which we briefly mentioned on the previous slide.</p> <p>Some people incorrectly use the words Bitcoin and cryptocurrency interchangeably. To be clear, they're not the same thing. As I've already mentioned, Bitcoin is a specific cryptocurrency. It was created in 2008 to be a peer-to-peer payment system and it's currently the largest cryptocurrency by market share. But again, it's not the only one.</p> <p><b>Say:</b> What other cryptocurrencies can you name? (Acknowledge responses and emphasize the vast number of examples. Responses may include Ethereum, BNB, Tether, Dogecoin, Solana, Binance USD, and many more.)</p> <p>Our next, need-to-know term is another one we've briefly mentioned, Blockchain.</p>
<p><b>Terms to Know – Blockchain</b></p>  <p>Slide 8</p>	<p><b>Terms to Know – Blockchain</b></p> <p><b>Instructor Note:</b> Display slide 8.</p> <p><b>Say:</b> A blockchain is an append-only digital ledger system distributed across all computers in a network. "Append-only" means data can only be added to the end of it, and previously added data cannot be changed. The technology behind a blockchain allows it to the accuracy of the data on it be trusted without the involvement of a central authority or middleman.</p> <p>There are many, many blockchains in existence, some public, some private and some a combination.</p> <p>All cryptocurrencies exist on a blockchain.</p> <p>Now let's get into some other Digital Asset terms.</p>
<p><b>Terms to Know – Non-Fungible Token</b></p>  <p>Slide 9</p>	<p><b>Terms to Know – Non-Fungible Tokens (NFTs)</b></p> <p><b>Instructor Note:</b> Display slide 9.</p> <p><b>Say:</b> First, are Non-Fungible Tokens, or NFTs.</p> <p>Is anyone familiar with these? What's your understanding of them?</p> <p>Here's perhaps a bit more of a technical definition. An NFT is a one-of-a-kind digital asset. It is a proof of ownership of a unique asset that is recorded on a blockchain. No NFT is exactly like another, so they</p>


# Exploring Digital (Crypto) Assets

	<p>cannot be traded one-for-one like virtual currency or other types of tokens.</p> <p>NFTs have a range of potential uses, including establishing a record of purchase and potentially ownership and authenticity of a digital work or asset through a unique cryptographic code that cannot be replicated.</p> <p>In many cases, while the NFT is stored on a blockchain, the underlying asset – the artwork, recording, physical property, etc. – isn't. So, while the record of ownership may have permanence on a blockchain, the owner often still must consider how/where the asset is stored.</p> <p>NFTs have thus far found use broad acceptance in non-financial areas such as digital art and other digital collectibles including “virtual real estate” in online virtual worlds. It's sometimes helpful to think of these uses like collecting trading cards or other collectibles.</p> <p><b>Ask:</b> Does anyone have any thoughts on why someone would spend money on a virtual asset? (Answer: Like other items thought to be collectible, they often hope it will increase in value and they'll eventually be able to sell it for a profit.)</p>
<div data-bbox="162 840 454 987"> <p><b>More Terms to Know</b></p> <div> <div>  <p><b>Crypto Wallet</b> Stores a digital asset, which is a private key, needed to use or spend the digital asset.</p> </div> <div>  <p><b>Native Coins</b> A digital currency that exists on its own blockchain and represents a digital currency.</p> </div> <div>  <p><b>Crypto Token</b> A digital representation of an asset which can, but doesn't have to be, a digital currency.</p> </div> </div> <p>Slide 10</p> </div>	<p><b>More Terms to Know</b></p> <p><b>Instructor Note:</b> Display slide 10.</p> <p><b>Say:</b> Ok...here are a few more building blocks of the Digital Asset language.</p> <p>First is a “Crypto Wallet.” And while it might seem logical that a crypto wallet is where you keep your crypto assets, that's not how it works, because ownership and transaction data are kept on the blockchain, not in a wallet.</p> <p>Instead, a crypto wallet is software that can be downloaded to a computer or mobile device to securely store the digital asset owner's private key and help manage public keys. Which gets me to a <i>key</i> point: if you lose access to your wallet and the private keys within it, you lose access to your digital assets and you can't get them back.</p> <p>As a result, it's important to be really careful with your private keys and your seed phrases, which are a string of words that when encrypted create your private key. You should always back up or write down private keys and seed phrases, and obviously, not share them with anyone.</p> <p>Next are Native Coins and Crypto Tokens.</p> <p>A Native Coin (or a layer 1 coin as we discussed a few slides ago) is a digital currency that exists on its own blockchain and represents a digital currency.</p> <p>A Crypto Token is a digital representation of an asset which can, but doesn't have to be, a digital currency. For example, NFTs we just spoke about are tokens, not currencies. Tokens do not have to have their own blockchain but can instead exist on others.</p>

# Exploring Digital (Crypto) Assets

	All coins are tokens but not all tokens are coins.
<p><b>More Terms to Know (cont.)</b></p> <p>Slide 11</p>	<p><b>More Terms to Know (cont.)</b></p> <p><b>Instructor Note:</b> Display slide 12.</p> <p><b>Say:</b> And, for our last slide of Digital Asset key terms, let's step into a bit more "stable space" and talk about two digital asset types that are <i>intended</i> to maintain more stable values.</p> <p>First, are Stablecoins. These are cryptocurrencies designed to maintain a stable value relative to a national currency (i.e., U.S. Dollar, EURO, etc.), a commodity, such as gold, or other reference assets.</p> <p>Then there are Central Bank Digital Currencies or CBDCs we mentioned a while ago. A CBDC is a digital form of central bank money that is widely available to the general public. "Central bank money" refers to money that is a liability of the central bank. The U.S. does not have a digital currency backed by our central bank. Other countries are exploring – so a topic to watch for in the future.</p> <p>And with that, we've reached the end of our first topic.</p>
<p><b>Topic 1 Group Discussion</b></p> <p>Slide 12</p>	<p><b>Topic 1 Group Discussion</b></p> <p><b>Instructor Note:</b> Display slide 12.</p> <p><b>Say:</b> Before moving on, can anyone volunteer and tell me what a digital asset is?</p> <p><b>Instructor Note:</b> Acknowledge answer(s). Correct answer is: a digital asset is anything that can be stored and transmitted electronically and has associated ownership or use rights.</p> <p><b>Say:</b> Great, and now does anyone want to share what a crypto asset is?</p> <p><b>Instructor Note:</b> Acknowledge answer(s). Correct answer is: Crypto assets refer broadly and generically to all types of representations of value or claims in digital form that rely on the use of a method of distributed ledger technology (DLT), excluding Central Bank Digital Currencies (CBDCs).</p> <p><b>Say:</b> The last thing I want to review before moving on is the 3 characteristics of digital assets. Do I have any volunteers?</p> <p><b>Instructor Note:</b> Acknowledge answer(s). Correct answer is:</p> <p>Digital Assets are:</p> <ul style="list-style-type: none"> <li>• Stored and transmitted electronically</li> <li>• Have ownership or use rights</li> <li>• Have value</li> </ul>

# Exploring Digital (Crypto) Assets

	<p><b>Topic 1 Instructor Resources</b></p> <ul style="list-style-type: none"> <li>• U.S. Department of Treasury Crypto-Assets: Implications for Consumers, Investors, and Businesses (<a href="https://home.treasury.gov/system/files/136/CryptoAsset_EO5.pdf">https://home.treasury.gov/system/files/136/CryptoAsset_EO5.pdf</a>)</li> <li>• Board of Governors of the Federal Reserve System: FAQs (<a href="https://www.federalreserve.gov/faqs/what-is-a-central-bank-digital-currency.htm">https://www.federalreserve.gov/faqs/what-is-a-central-bank-digital-currency.htm</a>)</li> <li>• CFTC 10 Digital Asset Terms You Should Know (<a href="https://www.cftc.gov/sites/default/files/2022-09/KeyTerms.pdf">https://www.cftc.gov/sites/default/files/2022-09/KeyTerms.pdf</a>)</li> <li>• Cryptocurrency Podcast – Military OneSource Podcast – FINRED (<a href="https://download.militaryonesource.mil/12038/MOS/Podcasts/FINRED-Podcast-Transcript-Cryptocurrency.pdf">https://download.militaryonesource.mil/12038/MOS/Podcasts/FINRED-Podcast-Transcript-Cryptocurrency.pdf</a>)</li> <li>• CFTC Digital Assets Primer (<a href="https://www.cftc.gov/media/5476/DigitalAssetsPrimer121520/download">https://www.cftc.gov/media/5476/DigitalAssetsPrimer121520/download</a>)</li> <li>• Page One Economics®, Focus on Finance, Beyond the Hype: An Introduction to Crypto Assets (<a href="https://www.stlouisfed.org/education/page-one-economics-classroom-edition/beyond-the-hype-an-introduction-to-crypto-assets">https://www.stlouisfed.org/education/page-one-economics-classroom-edition/beyond-the-hype-an-introduction-to-crypto-assets</a>)</li> <li>• The White House Executive Order 14067 of March 9, 2022: Executive Order on Ensuring Responsible Development of Digital Assets (<a href="https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/">https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/</a>)</li> <li>• Financial Literacy and Education Commission (FLEC) Crypto-Assets <a href="https://www.mymoney.gov/flec-crypto-asset-recourses">https://www.mymoney.gov/flec-crypto-asset-recourses</a></li> </ul>
 <p>Slide 13</p>	<p><b>Topic 2. Investing in Digital Assets and the Associated Risks</b></p> <p><b>Instructor Note:</b> Display slide 13.</p> <p>This section consists of 9 slides which are primarily focused on providing, 1.) An understanding of investing in general including where digital and crypto assets fall within prudent investing strategies, and 2.) The risks of investing in general as well as those more closely related to digital assets.</p> <p>The section begins with a very high-level overview of:</p> <ul style="list-style-type: none"> <li>• The primary goal of investing</li> <li>• The main risk of investing being that you could lose money</li> <li>• The introduction of a risk/potential reward tradeoff in the investing space</li> </ul> <p>The next slide drills down even further into this idea of potentially losing money by comparing investing and gambling (the unspoken point being</p>

## Exploring Digital (Crypto) Assets

many people “investing” in digital assets are, in reality, just gambling instead).

The next slide comes back to the idea of a risk/potential reward tradeoff by presenting 4 main categories of investments on a risk spectrum. It highlights that digital assets are in the speculative category, making them some of the riskiest types of investments available. The narrative for this slide continues by highlighting how professional investment portfolios create a blend of the various asset classes, hoping to strike an appropriate balance between risk and potential return, and then highlights that even aggressive portfolios typically only allocate mid- to low-single digit percentages of the overall portfolio to speculative assets. The point here is to highlight the risks associated with digital assets as an investment category without explicitly telling the learners what to do or not to do.

Finally, the section finishes out with 4 slides that highlight certain risks specific to digital assets.

**Say:** Now that we have a little better handle on the digital asset landscape and some key terms you should know, let’s shift gears and look at digital assets from the angle most of you are interested in, investing in them.

And just for good measure, we’ll also cover some information on the risks associated with that.



Slide 14

### General Risks of Investing

**Instructor Note:** Display slide 14. This slide has animation. Click once after acknowledging responses to questions.

**Say:** Before we get into investing in digital assets and the associated risks, let’s talk about the general risks of investing in anything.

**Ask:** What are some of the risks associated with investing?

**Instructor Note:** Acknowledge responses – click to reveal text about the biggest risk of investing.

**Say:** The biggest risk of investing is you could lose some, or all, of your money.

**Ask:** So, why do people invest?

**Instructor Note:** Acknowledge responses – click to review text about why people invest.

**Say:** People invest to try to earn a greater return on their money than they could by just saving it in a savings account.

Of course, probably the biggest risk of investing is that rather than achieving your objective of earning greater returns, you could actually lose money instead. In fact, you could even lose **ALL** your money if the investment becomes worthless.

Ultimately, the Risk vs Potential Reward tradeoff generally works like this: The greater the potential return, the greater the risk.



# Exploring Digital (Crypto) Assets

## Investing or Gambling

### Investing attributes:

- Having at least a basic understanding of what you're buying
- Having a hypothesis of why you think your investment will generate greater returns
- Understanding and accepting the specific risk/potential reward tradeoff



### Gambling attributes:

- Having only a limited understanding of what you're buying
- No good hypothesis of why you think your investment will generate greater returns
- Not truly understanding the risk you're taking



FINANCIAL  
READINESS

Slide 15

## Investing or Gambling?

**Instructor Note:** Display slide 15.

**Say:** On the next slide, we'll get into how prudent financial professionals typically structure investment portfolios to try to strike the appropriate risk/potential return tradeoff. But before we do that, let's take this concept of risk and potential reward a bit further.

Specifically, since investing could result in losing money, is there really a difference between investing and gambling? Most people familiar with investing would argue there is.

As you see here, investing typically involves:

- Having at least a basic understanding of what you're buying
- Having a hypothesis of why you think your investment will generate greater returns
- Understanding and accepting the specific risk/potential reward tradeoff.

On the other hand, gambling typically involves:

- Having only a limited understanding of what you're buying
- Not having a good hypothesis of why you think your investment will generate greater returns
- Ultimately, perhaps not truly understanding understand the risk you're taking.

Clearly, when it comes to using your hard-earned money to try to generate higher returns, most people would argue in favor of investing over gambling. And that's true no matter what asset you're buying.

Using these last couple slides as a foundation, let's now jump into how professional investment portfolios are often structured and how digital assets might fit into them.

## The Investment Spectrum



FINANCIAL  
READINESS

Slide 16

## The Investment Spectrum

**Instructor Note:** Display slide 16.



**Say:** To understand how to build an investment strategy or portfolio that includes digital assets, it helps to first look at the various types of investment assets on a spectrum, specifically, a risk/potential reward spectrum.

On the left side are lower risk, lower return investments. And on the right side are higher risk, potentially higher reward investments. Note the word “potentially” here – there are no guarantees that just because you take on more risk, you’re going to get higher returns – it just creates the potential for higher returns.

As you can see digital assets and cryptocurrencies fall on the far-right side of the spectrum, in the speculative investments category.



# Exploring Digital (Crypto) Assets

	<p>So, with this as a basic framework, let's take a minute now and look at how professional investment portfolios use these categories.</p> <p>Essentially, what they do is blend these various investment classes in differing percentage allocations, rather than putting their eggs all in one basket, so to speak. Conservative portfolios will contain more investments from the left side, and aggressive portfolios will have more from the right.</p> <p>Exactly how they do that is beyond the scope of this course, but it <b>IS</b> worth noting that even with aggressive portfolio mixes, investment professionals often limit the percentage allocated to speculative investments to mid to low single digits.</p> <p><b>Ask:</b> Which is how much? [correct answer is 5% or lower].</p> <p><b>Say:</b> Again, as I mentioned at the outset of the course, I'm not here to tell you whether you should own digital assets. And I'm not here to tell you how to build an investment portfolio. This information is simply provided to help you better understand how investment portfolios are often created by professionals, and you can make your own decisions from there. Makes sense?</p> <p>Also, it's worth mentioning that no matter what type of investing you're doing, it's important to have your basic finances in order first. Local PFMs and PFCs can assist with that if you need some help.</p> <p>Now that we've talked about investing and investing risk in general terms, let's finish out this section by focusing on some investment risks specific to the world of digital assets.</p>
 <p>Slide 17</p>	<h2>Digital Asset Investing – Market Risks</h2> <p><b>Instructor Note:</b> Display slide 17. The slide has animations that do not require any input.</p> <p><b>Say:</b> The first type of investing risk to talk about with digital assets is market risks. And while all investing exposes you to market risk, there are some market risks that are specific to this space.</p> <p>First, digital assets are relatively new, which makes it harder to predict how they will react in different market conditions.</p> <p>Next is the point we touched on toward the beginning of the course regarding the high price volatility of these assets. Uncertainty, changes in sentiment, economic conditions, or even a social media comment, can send market values rising or falling sharply.</p> <p>And finally, for now, is liquidity risk...meaning it can sometimes be hard to sell digital assets that aren't commonly traded.</p>
	<h2>Digital Asset Investing – Operational Risks</h2> <p><b>Instructor Note:</b> Display slide 18. The slide has animations that do not require any input.</p> <p><b>Say:</b> Now let's talk about operational risks related to digital assets.</p>

# Exploring Digital (Crypto) Assets

Slide 18

First, is what we'll call unsupervised trading. The idea here is that the buying and selling of digital assets are not supervised by regulators like other exchanges, banks, or brokers. At the individual investor level, this means you have very little, if any protection, if someone does something inappropriate with your funds. You're trusting that the organization with whom you are placing your funds is going to be honest and ethical in their dealings with you because there is often very little legal or regulatory oversight to make sure they do.

Next, and related to that, is inconsistent customer protections. In short, some virtual currency platforms may be missing critical system safeguards and customer protections.

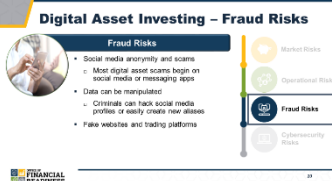
And finally, there's the risk of potentially commingled customer assets, where customer assets kept in custodial wallets may be mixed with other customers' assets or used by the platform for operational purposes. This effectively ties the safety of customer assets to the financial wellbeing of the platform.

The FTX exchange collapse in late 2022 demonstrated that if this happens, investors can be left unable to retrieve their money.

**Instructor Note:** It may be helpful to research the FTX case from late 2022 prior to delivering the course.

If you're not familiar with that particular event, FTX was a cryptocurrency exchange once valued around \$32 billion that unraveled almost overnight, ultimately resulting in their bankruptcy declaration in late 2022 and criminal charges against their founder. Some customer money controlled by the platform in custodial wallets ended up missing. People who kept their coins in non-custodial digital wallets (self-custody) were not affected.

Again, it is important to remember that digital assets and cryptocurrencies are not federally insured, and in some cases could be considered the assets of the company if there is a bankruptcy.



Slide 19

## Digital Asset Investing – Fraud Risks

**Instructor Note:** Display slide 19. The slide has animations that do not require any input.

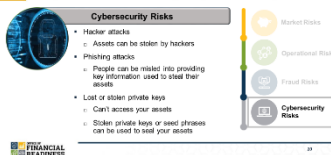
**Say:** Now let's talk about fraud risks. While not necessarily specific to digital assets, frauds in this space are potentially easier to pull off because it is so new and unfamiliar.

One specific type of fraud is social media scams. In fact, most digital asset scams begin on social media or messaging apps.

Another potential type of fraud involves data being manipulated. Criminals can hack social media profiles or easily create new aliases, making it easier to perpetrate frauds. Fraudulent websites and trading platforms can even be manipulated to appear legitimate.

# Exploring Digital (Crypto) Assets

## Digital Asset Investing – Cybersecurity Risks



## Digital Asset Investing – Cybersecurity Risks

**Instructor Note:** Display slide 20. The slide has animations that do not require any input.

**Say:** And finally, let's briefly look at cybersecurity risks.

Here we're talking about things like hacker attacks where someone hacks into your account and steals your assets.

Or phishing attacks where someone misleads you into providing key information that is then used to steal your assets.

There's also a risk of losing or having your private keys stolen. If you lose or forget your private key, you will never be able to access your funds to withdrawal them. Stolen private keys could be used by someone to access your account and steal your assets.

## Activity: Match the Risks



## Topic 2 Activity: Match the Risks

**Instructor Note:** Display slide 21.

**Say:** Now, let's do short a matching activity. Looking at the screen here, let's go down the list on the right, and determine what each type of risk is.

**Instructor Note:** Go down on the list on the right from top to bottom, soliciting answers from the students.

**[Click to display each answer.]**

# Exploring Digital (Crypto) Assets

## Topic 2 Instructor Resources

- CFTC Digital Assets Primer (<https://www.cftc.gov/media/5476/DigitalAssetsPrimer121520/download>)
- CFTC 14 Digital Asset Risks to Remember (<https://www.cftc.gov/node/242281>)
- CFTC Customer Advisory: Understand the Risks of Virtual Currency Trading ([https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/customeradvisory\\_urvct121517.pdf](https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/customeradvisory_urvct121517.pdf))
- CFP Board Notice to CFP® Professionals Regarding Financial Advice About Cryptocurrency Related Assets (<https://www.cfp.net/-/media/files/cfp-board/standards-and-ethics/compliance-resources/cfp-cryptocurrency.pdf?la=en&hash=234DAEC7A82C055935058D2789D968D3#:~:text=The%20Code%20and%20Standards%20does,should%20do%20so%20with%20caution.>)
- The White House Fact Sheet: FACT SHEET: White House Releases First-Ever Comprehensive Framework for Responsible Development of Digital Assets (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/16/fact-sheet-white-house-releases-first-ever-comprehensive-framework-for-responsible-development-of-digital-assets/>)
- Consumer Financial Protection Bureau: WARNO: New security clearance guidelines make it more important than ever for service members to monitor their credit (August, 2018) (<https://www.consumerfinance.gov/about-us/blog/warno-new-security-clearance-guidelines-make-it-more-important-ever-servicemembers-monitor-their-credit/>)
- The White House Executive Order 14067 of March 9, 2022: Executive Order on Ensuring Responsible Development of Digital Assets (<https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/>)

## Frauds, Scams, and Unlawful Practices

Slide 22

## Topic 3. Frauds, Scams, and Unlawful Practices

**Instructor Note:** Display slide 22.

**Say:** By now, we should have a grasp on the fundamental concepts of digital asset investing and risks. Let's dive a bit deeper and talk about frauds and scams you may come across when investing in digital assets.

# Exploring Digital (Crypto) Assets

## Frauds, Thefts, and Scams Examples



Slide 23

## Frauds, Thefts, and Scam Examples

**Instructor Note:** Display slide 23.

**Say:** Digital asset frauds, thefts, and scams are becoming increasingly common as more people are investing in digital assets.

You have probably heard of some of these scams, so let's get to it and look at the categories that these scams tend to fall under.

One of the most common is **investment scams**. These are where someone promises you can make a whole lot of money with no risk. These scams often start on social media or online dating apps or sites. With investment scams, the digital asset can be both the investment and/or the payment.

Next are **blackmail scams** where scammers send emails or regular mail to your home claiming they have embarrassing or compromising photos, videos, or personal information about you. Then, they threaten to make it public unless you pay them in cryptocurrency. This is blackmail and a criminal extortion attempt that should be reported to the FBI immediately.

There are also **business, government, and job scams**. Here, a scammer pretends to be someone you trust to convince you buy cryptocurrency and send it to them. They'll often impersonate well-known companies, your bank, or even government agencies and law enforcement.

The last scam we'll cover here are **online gaming and social media scams**. Be careful downloading or participating in play-to-earn games offering financial incentives to players. Often, the victims of these scams are directed to create a crypto wallet to purchase cryptocurrency to play. The more crypto the victim stores in their wallet, the more rewards they will purportedly earn in the game. Eventually, the criminal drains the victim's wallet using a malicious program activated upon joining the game.

There are also harmful social media crypto scams out there such as influencer or business giveaway scams. These scams ask you to deposit cryptocurrency into a designated wallet with the promise to double your money or send you a product. These promises never materialize, and the scammers take your crypto for themselves. Be aware of these scams and research the company's official website or avoid these offers altogether.

## "Red Flags"

Be on the lookout for these "Red Flags":

- "Guaranteed, oversized returns"
- "The more money you commit, the more you are guaranteed to return"
- Loan offers, excessive margin, or matching funds
- "You can only open an account with digital assets"
- Claims that customer assets are federally insured
- You're invited to trade/invest by someone you met online
- There is no physical address or phone number

Search for "digital asset scams" for current trends



Slide 24

## "Red Flags"

**Instructor Note:** Display slide 24. and refer students to the CFTC Red Flags Handout

**Say:** So, what are some "Red Flags" that you should lookout for to avoid digital asset related scams.

**"Guaranteed, oversized returns"** Nod if you've ever seen someone claiming that investing in digital assets will produce these. This one is pretty common, and also pretty fraudulent. Oversized returns and

## Exploring Digital (Crypto) Assets



guaranteed returns simply don't happen together in a free market system.

**“The more money you commit, the more you are guaranteed in return”** This one is pretty straightforward, and can be very persuasive, but keep in mind that the more money you invest, the more you can lose.

**Loan offers, excessive margin, or matching funds.** Many fraudulent trading platforms or dealers offer high levels of margin, “special” loan offers, or will match your trade—doubling or tripling your investment. Remember, you can't get something for nothing. Criminals make these offers to encourage you to add more money to your account. They will sometimes even show you fake gains and balances to keep you contributing.

**“You can only open an account with crypto”.** Woah, watch out for this one! This red flag is especially risky because these transactions (1) can't be reversed, and (2) can't be disputed.

Next, **claims that customer assets are federally insured.** There are currently 3 major types of depositor or investor protection: The Federal Deposit Insurance Corp. (FDIC) and National Credit Union Administration (NCUA) which protect bank or credit union deposits, and the Securities Investor Protection Corp (SIPC) that protects customer assets if a member firm fails. None of these protect against losses associated with digital assets. Furthermore, no insurance will protect you against market losses.

**You're invited to trade or invest by someone you've met online.** Never make digital asset payments to anyone you meet online. And if you see a claim or a tip online – do your due diligence and research.

**No physical address or customer service phone number.** A lot of criminals shut down their websites, email addresses, and other identifiers if they're at risk of being caught in a scam. If a business isn't freely offering up this info, do not invest with or in them. Also make sure an address actually exists by doing a quick street-view search.

**Bottom line:** Look before you leap. Before investing in any digital assets, familiarize yourself with common frauds and scams so you know what to look out for. Simply searching the Internet for “digital asset scams” will produce a massive list of things to be aware of.

Up next – the personal impact of fraud.

### Personal Impact of Digital Asset Fraud

- Potential impact:
- You could lose all that you invested
  - You could experience identity theft which could:
    - Cause short-term damage to your credit reputation which could impact your ability to get and maintain clearance



FINANCIAL READINESS

Slide 25

### Personal Impact of Digital Asset Fraud



**Instructor Note:** Display slide 25.

**Say:** So, what is the potential personal impact of digital asset-related fraud? By now, this should be an easy question to answer. To put it bluntly – you could lose all of the money you invest.

The other potentially big personal impact of digital asset-related fraud is it could result in identity theft.







# Exploring Digital (Crypto) Assets


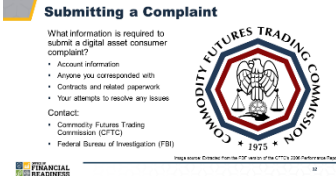

	<p>And while identity theft presents challenges for anyone experiencing it, it's potentially even more challenging for Service members. This is due to the fact that identity theft could result in short-term damage to your credit reputation, and credit reputations impact your ability to get and maintain security clearances.</p> <p>If you're a victim of fraud, you should take steps to check your reports and to mitigate the situation. Let's talk more about that now.</p>
<div data-bbox="162 462 487 630"> <p><b>If You Experience Digital Asset Fraud</b></p> <p>6 Steps Recommended by the CFTC:</p> <ol style="list-style-type: none"> <li>1. Don't pay more</li> <li>2. Collect all pertinent information and documents</li> <li>3. Protect your identity and records</li> <li>4. Report the fraud to authorities</li> <li>5. Check your insurance and explore other financial recovery steps</li> <li>6. Change future behaviors</li> </ol> </div> <div data-bbox="324 483 487 609">  </div> <div data-bbox="162 619 487 651"> <p>FINANCIAL READINESS</p> </div> <div data-bbox="264 657 378 693" data-label="Text"> <p>Slide 26</p> </div>	<p><b>If You Experience Digital Asset Fraud</b></p> <p><b>Instructor Note:</b> Display slide 26.</p> <p><b>Say:</b> Since we'll cover how to report digital asset frauds and thefts from a crime perspective in the next section, let's take a moment here and look at what you can do to help protect yourself if you become a victim.</p> <p>Here's what the CFTC recommends:</p> <p><b>Don't pay any more money.</b> Sometimes the scammers say you need to give them more in the form of a "tax" or fees, or you need to reach a higher VIP status to get your money back. Or they'll pose as government officials or "recovery companies" to get you to pay them, and not do anything in exchange.</p> <p><b>Collect all pertinent information and documents.</b> We'll talk about this more in the next section but it's important to capture as many details as possible while they're still fresh in your mind.</p> <p><b>Protect your identity and records.</b> Take steps to block access to your records and protect against identity theft. Identitytheft.gov contains lots of helpful information on what to do.</p> <p><b>Report the fraud to authorities.</b> Again, this will be the subject of our next section.</p> <p><b>Check your insurance and explore other financial recovery steps.</b> Some homeowners insurance includes coverage for fraud losses. It may also be beneficial to consult with a tax professional, financial counselor or advisor, and an attorney.</p> <p><b>Change future behaviors.</b> In short, try to avoid putting yourself in a similar situation in the future. Embrace the saying, "Fool me once, shame on you. Fool me twice, shame on me."</p>
<div data-bbox="162 1501 487 1669"> <p><b>Be Cautious and Beware!</b></p> <p>The relative newness of the digital asset universe means:</p> <ul style="list-style-type: none"> <li>• It's an easier environment in which to perpetrate fraud because a lot of how it works isn't understood by the public</li> <li>• It lacks a lot of the consumer protections more established and regulated financial markets provide</li> </ul> </div> <div data-bbox="324 1522 487 1648">  </div> <div data-bbox="162 1659 487 1690"> <p>FINANCIAL READINESS</p> </div> <div data-bbox="264 1696 378 1730" data-label="Text"> <p>Slide 27</p> </div>	<p><b>Be Cautious and Beware!</b></p> <p><b>Instructor Note:</b> Display slide 27.</p> <p><b>Say:</b> To wrap up the content of this section, it's important to foot stomp an important point made throughout it. Specifically, be cautious and beware when dealing in the digital asset space. Because the world of digital assets is so new – relatively speaking:</p>





# Exploring Digital (Crypto) Assets

	<ul style="list-style-type: none"> <li>• It's an easier environment in which to perpetuate fraud because a lot of how it works isn't understood by the public.</li> <li>• It lacks a lot of the consumer protections that more established and regulated financial markets provide.</li> </ul> <p>As like the caveats I made in the investing section earlier, this isn't to say you shouldn't invest in digital assets, it's simply to say that if you're going to, it's smart to be cautious in what you're doing.</p>
<p><b>Activity 1: Identify the Type of Scam</b></p> <p><b>Scenario 1:</b> You receive a text from what appears to be DFAS or (PPC if in Coast Guard) saying there is a legal issue with your pay. They say you owe money from an overpayment, and they tell you to solve the problem or protect your money by buying cryptocurrency. They might say to send it to a wallet address they give you — for "safe keeping."</p> <p>What type of scam is this?</p>  <p>FINANCIAL READINESS</p> <p>Slide 28</p> 	<p><b>Topic 3 Activity 1: Identify the Type of Scam</b></p> <p><b>Instructor Note:</b> Display slide 28. This slide has animation. Click once to reveal the correct answer highlighted.</p> <p><b>Say:</b> Let's review a scenario. Let's say you receive a text from what appears to be DFAS (or PPC if Coast Guard) saying there is a legal issue with your pay. They say you owe money from an overpayment, and they tell you to solve the problem or protect your money by buying cryptocurrency. They might say to send it to a wallet address they give you — for "safe keeping."</p> <p>What type of scam does this sound like?</p> <p><b>Instructor Note:</b> Acknowledge answer(s). Click once to show the correct answer: Business, Government, and Job Scam.</p>
<p><b>Activity 2: Identify the Type of Scam</b></p> <p><b>Scenario 2:</b> You are on your phone spending what idle time you have, looking at items on the web. You see a pop-up window claiming invest here! Big money! And is endorsed by a reality tv celebrity, with them flashing big stacks of cash. It claims if you click that link within the next 5 minutes, that celebrity can multiply any cryptocurrency you send them.</p> <p>What type of scam is this?</p>  <p>FINANCIAL READINESS</p> <p>Slide 29</p> 	<p><b>Topic 3 Activity 2: Identify the Type of Scam</b></p> <p><b>Instructor Note:</b> Display slide 29. This slide has animation. Click once to reveal the correct answer highlighted.</p> <p><b>Say:</b> We have another scenario here. You are on your phone spending what idle time you have, looking at items on the web. You see a pop-up window claiming invest here! Big money! And is endorsed by a reality tv celebrity, with them flashing big stacks of cash. It claims if you click that link within the next 5 minutes, that celebrity can multiply any cryptocurrency you send them.</p> <p>What type of scam is this?</p> <p><b>Instructor Note:</b> Acknowledge answer(s). Click once to show the correct answer: Investment Scam or Online Gaming or Social Media Scam.</p>

# Exploring Digital (Crypto) Assets

	<p><b>Topic 3 Instructor Resources</b></p> <ul style="list-style-type: none"> <li>• The CFTC, (<a href="https://www.cftc.gov/complaint">https://www.cftc.gov/complaint</a>), (<a href="https://www.cftc.gov/LearnAndProtect">https://www.cftc.gov/LearnAndProtect</a>)</li> <li>• CFTC Curious About Crypto? Watch Out for Red Flags (<a href="https://www.cftc.gov/sites/default/files/2022-10/DigitalAssetRedFlags.pdf">https://www.cftc.gov/sites/default/files/2022-10/DigitalAssetRedFlags.pdf</a>)</li> <li>• CFTC Customer Advisory: Understand the Risks of Virtual Currency Trading <a href="https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/customeradvisory_urvct121517.pdf">https://www.cftc.gov/sites/default/files/idc/groups/public/@customerprotection/documents/file/customeradvisory_urvct121517.pdf</a>)</li> <li>• CFTC 6 Steps to Take After Discovering Fraud <a href="https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/6Steps.html">https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/6Steps.html</a></li> </ul>
 <p>Slide 30</p>	<p><b>Topic 4. How to Report Fraud, Thefts, and Scams</b></p> <p><b>Instructor Note:</b> Display slide 30.</p> <p><b>Say:</b> This is a pretty straightforward section where we'll talk about how to submit complaints and report any frauds or scams you suspect. Let's get to it.</p>
 <p>Slide 31</p>	<p><b>Submitting a Complaint</b></p> <p><b>Instructor Note:</b> Display slide 31.</p> <p><b>Say:</b> As we touched on a few slides ago, to submit a digital asset complaint, gather all related information before you file. This includes your account information, the company, or individuals you corresponded with, any contracts and related paperwork, and your attempts to resolve any issues.</p> <p>Once you've collected all this, you can start the consumer complaint process. The CFTC and FBI are good places to begin.</p>
 <p>Slide 32</p>	<p><b>Reporting Frauds and Scams</b></p> <p><b>Instructor Note:</b> Display slide 32.</p> <p><b>Say:</b> So, we talked about the CFTC and FBI, but there are also other government agencies/web portals you can submit consumer complaints to.</p>

# Exploring Digital (Crypto) Assets

	<p>You can report digital asset frauds to:</p> <ul style="list-style-type: none"> <li>• As mentioned before, the CFTC, <a href="https://www.cftc.gov/complaint">https://www.cftc.gov/complaint</a></li> <li>• FBI's Internet Crime Complaint Center, <a href="https://www.IC3.gov">https://www.IC3.gov</a></li> <li>• There's also The Securities and Exchange Commission, <a href="https://www.sec.gov/tcr">https://www.sec.gov/tcr</a></li> <li>• The Federal Trade Commission, <a href="https://www.reportfraud.ftc.gov">https://www.reportfraud.ftc.gov</a></li> <li>• And your state regulator, attorney general, and local law enforcement</li> </ul> <p>And, if you can't remember all of these websites and acronyms, speak to a financial counselor on your installation and they can assist you.</p> <p>Let's move on to a quick activity.</p>
<p><b>Group Discussion: Filing a Complaint</b></p> <p>Who should you file a consumer complaint with?</p> <p>What information do you need to file a complaint?</p> <p><b>Slide 33</b></p> 	<p><b>Topic 4 Group Discussion – Filing a Complaint</b></p> <p><b>Instructor Note:</b> Display slide 33.</p> <p><b>Say:</b> Can anyone answer these questions?</p> <p><b>Instructor Note:</b> Acknowledge answer(s). Correct answers are (from top to bottom): Depending on the type of crime, CFTC, FBI, SEC; FTC, local law enforcement; account information, the company, or individuals you corresponded with, any contracts and related paperwork, and your attempts to resolve any issues.</p>
	<p><b>Topic 4 Instructor Resources</b></p> <ul style="list-style-type: none"> <li>• The CFTC: <a href="https://www.cftc.gov/complaint">https://www.cftc.gov/complaint</a></li> <li>• FBI's Internet Crime Complaint Center, (<a href="https://www.IC3.gov">https://www.IC3.gov</a>)</li> <li>• The Securities and Exchange Commission, (<a href="https://www.sec.gov/tcr">https://www.sec.gov/tcr</a>)</li> <li>• The Federal Trade Commission (FTC), (<a href="https://www.reportfraud.ftc.gov">https://www.reportfraud.ftc.gov</a>)</li> </ul>
<p><b>Potential Tax Implications</b></p> <p><b>Slide 34</b></p>	<p><b>Topic 5: Potential Tax Implications</b></p> <p><b>Instructor Note:</b> Display slide 34.</p> <p><b>Say:</b> Trying to understand how digital assets are taxed can be confusing, so let's break this down and clarify tax treatments and some common transactions you should make sure to report.</p>
<p><b>Tax Treatments</b></p> <p>What are some potential tax treatments for digital assets?</p> <ul style="list-style-type: none"> <li>• IRS Notice 2014-21 provides guidance on the tax treatment of transactions using convertible virtual currencies.</li> <li>• Currently, the IRS considers cryptocurrency to be a property.</li> <li>• General tax principles applicable to property transactions apply to transactions using virtual currency.</li> </ul> <p><b>Slide 35</b></p> 	<p><b>Tax Treatment of Digital Assets</b></p> <p><b>Instructor Note:</b> Display slide 35. and refer students to DoD FINRED Tax Implications handout.</p> <p><b>Say:</b> What are some potential tax treatments for Digital Assets?</p> <p>The IRS provides detailed guidance on the tax treatment of transactions using digital assets. I would encourage anyone thinking about investing</p>

# Exploring Digital (Crypto) Assets

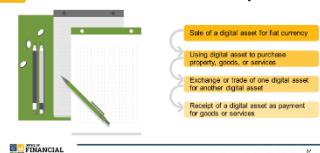


in digital assets to take a look at this notice and the related handout from DoD FINRED, but there is one main takeaway you should understand. Currently, the IRS considers cryptocurrency to be a property, not an investment like stocks so the tax implications of it may be different than you think.

Now is also a good time to remind you all that we're using the term "Digital Asset" rather than "Crypto".

Now that we've talked about how the IRS treats digital assets, let's go through some common transactions you may be required to report on your tax return which, by the way, also would mean keeping records of the transactions so that you *can* report them if required.

## Common Transactions to Report



Slide 36

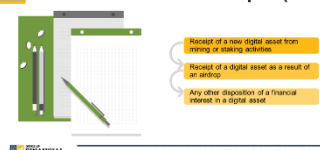
## Common Transactions to Report

**Instructor Note:** Display slide 36.

**Say:** Many transactions involving digital assets are generally required to be reported on a tax return. In fact, Digital Assets is now the first topic on IRS Form 1040 and asks if you received, exchanged, gifted, or otherwise disposed of a digital asset during the year. Some of the more common transactions that may need to be reported on a tax return include:

- Sale of a digital asset for fiat currency, (any traditional government-backed currency such as US dollars, Euros, Mexican pesos, etc.)
- Using digital assets to purchase property, goods, or services
- Exchange or trade of one digital asset for another digital asset
- Receipt of a digital asset as payment for goods or services

## Common Transactions to Report (cont.)



Slide 37

## Common Transactions to Report (cont.)

**Instructor Note:** Display slide 37.


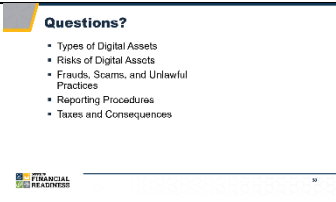
**Say:** Carrying on from the previous slide, here are some more transactions that may need to be reported:

- Receipt of a new digital asset from mining or staking activities, which are the processes some crypto currencies use to verify transactions and generate new coins
- Receipt of a digital asset from an airdrop, which is what it's called when crypto projects send free tokens to people as a marketing tactic
- Any other disposition of a financial interest in a digital asset

# Exploring Digital (Crypto) Assets

<div data-bbox="198 197 472 218" data-label="Section-Header"> <h2>Tracking Your Potential Tax Liability</h2> </div> <div data-bbox="198 222 472 352" data-label="Text"> <p>The Internal Revenue Code and regulations require taxpayers to maintain records to support what is reported on their tax returns.</p> <p>You must maintain sufficient records documenting all receipts, sales, exchanges, or other dispositions of digital assets and the fair market value of the digital assets at the time of the transactions.</p> <p>Examples of records that can support digital asset activity:</p> <ul style="list-style-type: none"> <li>Records documenting receipts, sales, exchanges, transfers, or other digital assets transactions</li> <li>Records showing the fair market value of the digital assets at the time of the transaction</li> <li>Digital wallet records, transaction history, and ledgers</li> <li>Exchange/kiosk records</li> </ul> </div> <div data-bbox="264 380 378 409" data-label="Text"> <p>Slide 38</p> </div>	<div data-bbox="524 189 1083 224" data-label="Section-Header"> <h2>Tracking Your Potential Tax Liability</h2> </div> <div data-bbox="524 239 972 275" data-label="Text"> <p><b>Instructor Note:</b> Display slide 38.</p> </div> <div data-bbox="524 287 1421 357" data-label="Text"> <p><b>Say:</b> At this point, you're probably wondering what you need to do to track your potential digital asset tax liability.</p> </div> <div data-bbox="524 371 1440 575" data-label="Text"> <p>The Internal Revenue Code and regulations require taxpayers to maintain records that are sufficient to support what is reported on their tax returns. Basically, this means you're required to maintain sufficient records documenting all receipts, sales, exchanges, or other dispositions of digital assets – including gains and losses, and the fair market value of the digital assets at the time of the transactions.</p> </div> <div data-bbox="524 588 1336 623" data-label="Text"> <p>These are some records that can support digital asset activity:</p> </div> <div data-bbox="524 640 1466 896" data-label="List-Group"> <ul style="list-style-type: none"> <li>• Records documenting receipts, sales, exchanges, transfers, or other digital assets transactions</li> <li>• Records showing the fair market value of the digital assets at the time of the transaction</li> <li>• Digital wallet records, transaction history, and ledgers</li> <li>• Exchange/kiosk records</li> </ul> </div> <div data-bbox="524 911 1445 1050" data-label="Text"> <p>To wrap this section up, it's important to recognize that many types of transactions involving digital assets have potential tax implications and as a U.S. taxpayer, you are responsible for accurately reporting those transactions and paying any calculated tax liability.</p> </div>
<div data-bbox="198 1073 334 1092" data-label="Section-Header"> <h2>Group Discussion</h2> </div> <div data-bbox="198 1096 472 1131" data-label="Text"> <p>What are some potential tax treatments for digital assets?</p> </div> <div data-bbox="198 1161 453 1194" data-label="Text"> <p>What can you do to track your potential personal digital asset tax liability?</p> </div> <div data-bbox="264 1253 378 1285" data-label="Text"> <p>Slide 39</p> </div> <div data-bbox="282 1304 358 1409" data-label="Image"> </div>	<div data-bbox="524 1064 928 1100" data-label="Section-Header"> <h2>Topic 5 Group Discussion</h2> </div> <div data-bbox="524 1115 972 1150" data-label="Text"> <p><b>Instructor Note:</b> Display slide 39.</p> </div> <div data-bbox="524 1165 1401 1199" data-label="Text"> <p><b>Ask:</b> Before wrapping up this topic, let's review what we discussed.</p> </div> <div data-bbox="524 1215 1409 1302" data-label="List-Group"> <ul style="list-style-type: none"> <li>• What are some potential tax treatments for digital assets?</li> <li>• What can you do to track your potential digital asset tax liability?</li> </ul> </div> <div data-bbox="524 1316 1445 1453" data-label="Text"> <p><b>Instructor Note:</b> First question: Acknowledge previous content that digital assets are typically treated as property for tax purposes, not like traditional financial investments like stocks. Second question: Acknowledge previous suggestions to keep thorough records.</p> </div>
	<div data-bbox="524 1470 974 1505" data-label="Section-Header"> <h2>Topic 5 Instructor Resources</h2> </div> <div data-bbox="524 1522 1443 1795" data-label="List-Group"> <ul style="list-style-type: none"> <li>• IRS Frequently Asked Questions on Virtual Currency Transactions (<a href="https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions">https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions</a>)</li> <li>• IRS Digital Assets (<a href="https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets">https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets</a>)</li> <li>• IRS Notice 2014-21 (<a href="https://www.irs.gov/irb/2014-16_IRB#NOT-2014-21">https://www.irs.gov/irb/2014-16_IRB#NOT-2014-21</a>)</li> </ul> </div>

# Exploring Digital (Crypto) Assets

 <p>Slide 40</p>	<h2>Summary and Review</h2> <p><b>Instructor Note:</b> Display slide 40.</p> <p><b>Say:</b> Ok, as we wrap up today's training, the goal of this course was to provide you with the information and resources needed to make informed decisions about owning Digital and Crypto assets.</p>
 <p>Slide 41</p>	<h2>Final Questions</h2> <p><b>Instructor Note:</b> Display slide 41.</p> <p><b>Say:</b> This course identified some of the main types of digital assets. We discussed investing in general, how digital assets can fit into that, and some of the main risks of both. We talked about frauds and scams and how to report them if you become a victim of such activity. And finally, we wrapped up with a discussion of the potential tax implications of investing in digital assets and what you need to do to comply with the law.</p> <p>Hopefully, you now have a better understanding of this relatively new area of investing.</p> <p><b>Ask:</b> Are there any questions?</p>





## 10 DIGITAL ASSET TERMS YOU SHOULD KNOW

Before investing in digital assets, it's critical to understand the technology and differences between them. Here are 10 key terms to help get you started:

### 1. Bitcoin

Bitcoin is a digital asset that uses encryption and blockchain technology to record transactions on a global distributed ledger. Created in 2008 as a peer-to-peer payment system, today it is the largest digital asset by market share, but it is not backed by any government, central bank, or physical asset.

### 2. Blockchain

A blockchain is a method of structuring and securing data into unchangeable blocks of transactions. Any attempt to make changes to an earlier block in the chain would change all the subsequent blocks and alert the network to the attempted change. Once a transaction is entered on the blockchain, it cannot be undone.

### 3. DeFi or decentralized finance

"DeFi" broadly refers to a variety of financial products, services, activities, and arrangements supported by smart-contract technology and designed to exist without intermediaries or third parties such as banks, brokers, or clearinghouses. But the degree of decentralization across DeFi applications can differ widely. In some cases, despite claims of decentralization, operations and activities can be highly concentrated in a small group of developers or investors.

### 4. Digital wallet

A digital wallet safely stores a digital asset owner's private key—needed to use or spend the digital asset—and public keys, which is how the owner is identified on the blockchain. The private key serves as a digital signature unique to you and must be carefully protected. If your private key is lost or stolen, you will not be able to access your digital assets. There are many kinds of digital wallets including:

- **Custodial wallets** hosted and secured by third-party custodians, such as a trading platform. Custodians will let you buy or trade from your trading account, but they hold the private keys. Customer funds are not federally insured or segregated. Your assets may be mixed with others and used to pay for operational and other costs of the platform. Custodians are also rich targets for hackers.
- **Noncustodial wallets**, which are software that can run on mobile phones or other devices. With noncustodial wallets, digital asset owners generate their own private and public keys, giving them complete control and responsibility over their assets.
- **Hardware wallets**, which are specially designed noncustodial storage devices that do not connect to the Internet.

Make a plan. Learn the markets. Know the risks.



# Exploring Digital (Crypto) Assets - Appendix A: CFTC Key Terms



## 5. Distributed ledger

A ledger is a record used to track money coming in and money going out, like your monthly bank statement. A distributed ledger is a public database that runs on many computers around the world. Instead of being centralized—at your bank, for example—a distributed ledger is shared and synchronized among the network participants so there is no single point of failure.

## 6. Mining

Just like there are gold, silver, and copper mines, there are digital mines as well. Mining is the process of receiving a reward of newly minted digital assets and transaction fees for the work of validating transactions and adding blocks to the blockchain. Miners also maintain copies of the distributed ledger.

## 7. Money service business

A money service business (MSB) is a nonbank company that transmits money, offers currency exchange, or that issues or redeems travelers checks or money orders. Currently, digital asset exchanges offering service to customers in the U.S. are required to register as MSBs with the Financial Crimes Enforcement Center (FinCEN) and many states. Registration as an MSB won't protect you from fraud or other problems, but most fraud is committed by unregistered entities. Visit [fincen.gov/msb-registrant-search](https://www.fincen.gov/msb-registrant-search) and [nmlsconsumeraccess.org](https://www.nmlsconsumeraccess.org) to check registrations.

## 8. Non-fungible token (NFT)

A non-fungible token, or NFT, is a one-of-a-kind digital asset. It is a proof of ownership of a unique asset that is recorded on a blockchain. No NFT is exactly like another, so they cannot be traded one-for-one like virtual currency or other types of tokens.

## 9. Smart contract

A computer program that is stored and runs on a blockchain. They may incorporate the elements of a binding contract or run only under certain conditions.

## 10. Stablecoin

Stablecoins are digital assets that are designed to maintain a stable value relative to a national currency, a commodity, such as gold, or other reference assets.

**LEARN MORE, visit [cftc.gov/LearnAndProtect](https://www.cftc.gov/LearnAndProtect)**

Commodity Futures Trading Commission  
1155 21st Street NW  
Washington, DC, 20581  
[cftc.gov](https://www.cftc.gov) | 866-FON-CFTC (866-366-2382)



[education@cftc.gov](mailto:education@cftc.gov)



[@CFTC](https://twitter.com/CFTC)



[@CFTCgov](https://www.facebook.com/CFTCgov)



[youtube.com/CFTC](https://www.youtube.com/CFTC)

This information was prepared by the Commodity Futures Trading Commission's Office of Customer Education and Outreach. It is provided for educational purposes only and does not provide legal or investment advice to any individual or entity. Please consult with your own legal or investment advisor before taking any action based on this information. The CFTC cannot attest to the accuracy of information on non-CFTC websites. References in this article to any organizations or the use of any organization, trade, firm, or corporation name is for informational purposes only and does not constitute endorsement or recommendation by the CFTC.

# Exploring Digital (Crypto) Assets - Appendix B: CFTC Red Flags



## CURIOUS ABOUT CRYPTO? WATCH OUT FOR RED FLAGS

Curious about digital asset investing? Remember, the digital asset marketplace is largely unregulated and fraud is a significant risk. Avoid websites or advisers that display these common red flags:

### **RED FLAG: Guaranteed, oversized returns**

Digital asset trading can be highly volatile, and there is no such thing as a guaranteed or risk-free investment, trading strategy, signal, bot, or algorithm. If a site promises to multiply your money in a matter of days or weeks, it is a fraud. You cannot achieve double-digit percentage gains without assuming a significant amount of risk that you could also lose money.

### **RED FLAG: The more money you commit, the more you are guaranteed in return**

It doesn't matter how much money you hand over. Increased returns require increasing your risk. Increasing your risk increases the chance of losing your money.

### **RED FLAG: Loan offers, excessive margin, or matching funds**

Many fraudulent trading platforms or dealers offer high levels of margin, "special" loan offers, or will match your trade—doubling or tripling your investment. Remember, you can't get something for nothing. Criminals make these offers to encourage you to add more money to your account. They will also show you fake gains and balances to keep you contributing.

### **RED FLAG: You can only open an account *with* digital assets.**

Criminals promoting fraudulent "trading services," programs, or advice will only accept bitcoin or other digital assets. Some even walk victims through the dollar-to-crypto conversion process on other platforms before asking the victims to send them the digital money. These digital asset transactions are risky because they:

1. **Cannot be reversed.** For example, once bitcoin is transferred on the blockchain, it cannot be changed, stopped, and typically cannot be recovered.
2. **Cannot be disputed.** All transactions are final. There are no do-overs or charge-backs.
3. **Hide real-world identities.** Cryptographic keys make it difficult to identify criminals.
4. **Can be quickly converted to cash or goods.** Digital assets can be easily exchanged for fiat currency, used on the dark web, or spent at a growing number of ecommerce sites.

### **RED FLAG: Claims customer assets are federally insured**

Stablecoins and digital asset exchange platforms are **NOT** federally insured. The Federal Deposit Insurance Corp. (FDIC) and National Credit Union Administration (NCUA) only protect bank or credit union depositors. The Securities Investor Protection Corp. (SIPC) protects investor assets if a financially-troubled member firm fails. No insurance will protect you against market losses.

### **RED FLAG: You're invited to trade or invest by someone you've met online**

Most digital asset scams begin on social media or through messaging apps. Never make digital asset payments to anyone you meet online. And don't rely solely on tips or claims you see on social media.

Make a plan. Learn the markets. Know the risks.

# Exploring Digital (Crypto) Assets - Appendix B: CFTC Red Flags



## RED FLAG: The company or adviser is not registered

Only work with investment platforms and advisers that are registered to do business in the United States or in your individual state to ensure you retain your protections under the law. Digital asset trading platforms must register as money service businesses (MSBs) with the Financial Crimes Enforcement Network (FinCEN) and with many state regulators. To check registrations, visit [fincen.gov/msb-registered-search](https://fincen.gov/msb-registered-search) or [csbs.org/nationwide-multistate-licensing-system](https://csbs.org/nationwide-multistate-licensing-system).

Before paying anyone for investment advice or sending digital assets to an individual's or firm's digital wallet, see if the broker, adviser, or firm are currently or formerly registered with the National Futures Association ([nfa.futures.org/basicnet/](https://nfa.futures.org/basicnet/)), the SEC ([adviserinfo.sec.gov](https://adviserinfo.sec.gov)), FINRA ([brokercheck.finra.org](https://brokercheck.finra.org)), or your state securities regulator ([nasaa.org/contact-your-regulator/](https://nasaa.org/contact-your-regulator/)). Relying on registration alone won't protect you from fraud, but most scams involve unregistered entities, people, and products.

## RED FLAG: Unable to withdraw your money

Most victims realize they're involved in a fraud when they can't get their money back. Victims are told they must wait a number of weeks, invest more to get to a higher account status, repay the loans and matching funds, and pay one undisclosed tax, fee, or charge after another until, ultimately, they give up. Never pay more money to get your money back.

## RED FLAG: There is no physical address or customer service phone number

When scams are discovered, the criminals shut down websites, email addresses, messaging and social media accounts, and disappear. Many are in overseas locations where it is difficult to track them down. Registration requires businesses to provide physical headquarters and branch addresses as well as customer service phone numbers, so if something goes wrong customers know where to turn for help. Businesses that do not provide this information, or unregistered entities outside the United States, should be avoided. Verify an address by doing a street-level map search.

## Don't be silent. Report fraud.

You can report digital asset frauds to the following agencies:

- The CFTC, [cftc.gov/complaint](https://cftc.gov/complaint)
- FBI's Internet Crime Complaint Center, [IC3.gov](https://ic3.gov)
- The Securities and Exchange Commission, <https://www.sec.gov/tcr>
- The Federal Trade Commission, [reportfraud.ftc.gov](https://reportfraud.ftc.gov)
- Your state regulator, attorney general, and local law enforcement

## LEARN MORE, visit [cftc.gov/LearnAndProtect](https://cftc.gov/LearnAndProtect)

Commodity Futures Trading Commission  
1155 21st Street NW  
Washington, DC, 20581  
[cftc.gov](https://cftc.gov) | 866-FON-CFTC (866-366-2382)

This information was prepared by the Commodity Futures Trading Commission's Office of Customer Education and Outreach. It is provided for educational purposes only and does not provide legal or investment advice to any individual or entity. Please consult with your own legal or investment advisor before taking any action based on this information. The CFTC cannot attest to the accuracy of information on non-CFTC websites. References in this article to any organizations or the use of any organization, trade, firm, or corporation name is for informational purposes only and does not constitute endorsement or recommendation by the CFTC.



[education@cftc.gov](mailto:education@cftc.gov)



[@CFTC](https://twitter.com/CFTC)



[@CFTCgov](https://www.facebook.com/CFTCgov)



[youtube.com/CFTC](https://www.youtube.com/CFTC)

## Tax Implications of Digital (Crypto) Assets

As with almost all financial transactions, there are tax implications — and digital assets are no different. If you are thinking about or already transacting in digital assets, here's the basics of what you need to know to ensure you're meeting your tax obligations:



### Digital Assets Defined

You are transacting in [digital assets \(which may also be referred to as crypto assets\)](#)\* if you have conducted a transaction, such as buy, sell, exchange or transfer of a digital asset. Digital asset is defined as a digital representation of value which is recorded on a cryptographically secured distributed ledger. Common digital assets include:

- Convertible virtual currency or cryptocurrency
- Stablecoins
- Non-fungible tokens, or NFTs

### Common Transactions

Many transactions involving digital assets are generally required to be reported on a tax return. Some of the more common transactions that service members and their families may need to report on a tax return include:

- Selling digital assets for cash
- Exchanging digital assets for other digital assets
- Using digital assets to purchase goods and services
- Receiving digital assets as a payment for services
- Other disposition or transfer of a financial interest in a digital asset

### Recordkeeping

You are required to maintain sufficient records that support what you report on your tax returns. The following are examples of records that can support digital asset activity:

- Records documenting receipts, sales, exchanges, transfers or other dispositions of digital assets
- Records showing the fair market value of the digital assets at the time of the transaction
- Digital wallet records, transaction history and ledgers
- Exchange/kiosk records

### Reporting Obligations

Transactions involving a digital asset are generally required to be reported on a tax return. Any capital gain or loss from the sale, exchange or use of digital assets, or digital assets accepted by you as payment for services must be reported as follows:

- **If you sold, exchanged, transferred or gave a digital asset as a gift** — check the “Yes” box next to the question on digital assets on page 1 of IRS Form [1040](#) or [1040-SR](#). Use IRS Form [8949](#) to calculate your capital gain or loss and report that gain or loss on [Schedule D](#) (IRS Form 1040), or use IRS Form [709](#) if you gave a digital asset as a gift.
- **If you received digital assets as compensation for services** — report the income as you would report other income of the same type; for example, wages for services provided as an employee should be reported on IRS Form [1040](#) or [1040-SR](#), line 1, while nonemployee compensation for services, such as sole proprietorship income, should be reported on [Schedule C](#) and [Schedule 1](#).

\*Digital assets are not real currency (also known as “fiat currency”) because they are not the coin and paper money of the United States, or a foreign country, and are not digitally issued by a government’s central bank. Instead, digital assets are treated as property for tax purposes.



# Exploring Digital (Crypto) Assets - Appendix C: Tax Implications of Digital (Crypto) Assets

## Examples



### Example 1 Selling digital assets for cash

John purchased 1 bitcoin for \$10,000 in cash on March 31, 2021.

John sold that bitcoin for \$25,000 in cash on April 30, 2022.

This sale will result in a long-term capital gain (asset held longer than one year) of \$15,000 (\$25,000 of cash received from the sale less the \$10,000 purchase price) that must be reported on John's 2022 tax return.



### Example 2 Using digital assets to purchase goods and services

John purchased 0.01 bitcoin for \$100 in cash on March 31, 2021.

John used this 0.01 bitcoin to purchase a used lawnmower on April 30, 2022, when the lawnmower was worth \$250 and the 0.01 bitcoin was worth \$250.

The use of the 0.01 bitcoin to purchase the lawnmower results in a taxable exchange of that bitcoin, and John must report a long-term capital gain of \$150 (the fair value of the lawnmower at \$250 less the \$100 bitcoin purchase price) on his 2022 tax return.

## Additional Guidance & Resources

- For federal tax purposes, digital assets are treated as property. Check your state of residence for additional guidance at the state level.
- This fact sheet is not an endorsement of digital assets and is only intended to inform you of your tax obligations if you decide to or are already transacting in digital assets.
- As with all complex financial decisions, you may want to consult with a tax professional, or another qualified [personal financial manager](#) or [counselor](#).
- IRS resource: ["Digital Assets"](#)
- Commodity Futures Trading Commission resource: ["Curious About Crypto? Watch Out for Red Flags"](#)



As you reach new milestones and complete [your service's financial readiness training](#), look to the Office of Financial Readiness for more information and follow @DoDFINRED on [Facebook](#) [Twitter](#) [Instagram](#) [YouTube](#)

