U.S. Immigration
and Customs
Enforcement

# Chapter 3: Financial Management and Accounting

## Section 3.15 - Cryptocurrency

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# Introduction

This section of the Financial Management Policy Manual (FMPM) provides U.S. Immigration and Customs Enforcement (ICE) financial management policy on the recording and reporting of cryptocurrency transactions. Cryptocurrency is an encrypted, decentralized digital currency or asset that can be bought, sold, and traded for U.S. dollars or other currencies. Cryptocurrency can be used as a medium of exchange to purchase goods and services in a peer network where transactions are confirmed by cryptography. Cryptocurrency fluctuates in value and has extreme volatility. Currently, there is no legal authority to authorize the transactions or no specific guidance from General Accepted Accounting Principles (GAAP) on the accounting treatment for cryptocurrency. Therefore, ICE has elected to account for cryptocurrency as an indefinite-lived intangible asset. Due to the absence of specific existing accounting guidance from the Department of Homeland Security (DHS), The U.S. Treasury, Office of Management and Budget (OMB), or GAAP, the ICE Office of Financial Management (OFM) has adopted an accounting treatment that provides the most conservative presentation based on the number of Cryptocurrencies held in Homeland Security Investigations (HSI) wallets for the ICE.

This policy shall remain in effect until superseded.

# Responsibilities

The **ICE Chief Financial Officer (CFO)** establishes, oversees and updates all financial management activities including, but not limited to, policy development, budget formulation, asset and facilities management and internal controls consistent with the mission and strategic goals of the Department of Homeland Security.

The **Office of Financial Management (OFM)** is responsible for implementing, monitoring, and ensuring the accuracy and integrity of the financial information reflected in the ICE financial statements as it relates to cryptocurrency.

The **Homeland Security Investigations (HSI)** is responsible for the seizure, handling, tracking, and final disposition of all forms of cryptocurrency.

The **United States Marshals Service (USMS)** is responsible for providing "cold" storage for Bitcoins and other applicable cryptocurrency.

# Policy

Cryptocurrency is a new type of value and payment method that is distinctly different from fiat currency (e.g., U.S. dollars and foreign currencies). Instead of possessing a physical form, cryptocurrency exists as immutable distributed ledgers maintained on public blockchains. Cryptocurrency should not be confused with electronic instances of cash (e.g., an online bank account with a consumer banking institution), which are linked to physical currency. Other terms, such as digital currency, tokens, or coins, may be used to describe cryptocurrency. However, it is important to distinguish between cryptocurrency and tokens:

a. Cryptocurrency - is an intangible value held in an intangible form of currency used to exchange for good or services.

b. Token - is a cryptographic string of numbers and letters that contains no real data but relates back to real data. A token can have a functionality beyond an exchange of value; it can represent any asset or functionality desired by the developer for use on a platform

c. Spot rate – also known as spot price, represents a contracted price for the purchase or sale of a commodity, security, or currency for immediate delivery and payment on the spot date, which is normally one or two business days after the trade date. The spot rate is the current price quoted for immediate settlement of the contract.

## 1. Characteristics of Cryptocurrency

### 1-1. Types of Cryptocurrency

Primarily, there are two types of cryptocurrency:

a. Bitcoins - a type of decentralized cryptocurrency that can be bought, sold, and traded for U.S. dollars or other currencies, and used as a medium of exchange to purchase goods and services

b. Altcoins - all cryptocurrencies other than Bitcoin

## 2. Cryptocurrency Lifecycle

Cryptocurrency may be seized by HSI and transferred to USMS for long-term storage pending forfeiture. HSI will determine if Altcoins are approved for cold storage by USMS; if Altcoins are not approved for storage they will be transferred

to the Customs & Border Protection (CBP) Fines, Penalties and Forfeitures Office (FPFO) pending forfeiture.

All seized cryptocurrency (e.g. Bitcoins and Altcoins) must undergo respective administrative, civil, or criminal forfeiture proceedings prior to liquidation. HSI must contact CBP FPFO to initiate the Administrative Forfeiture process within 15 calendar days of the date of seizure. HSI will coordinate the liquidation of forfeited cryptocurrency with USMS. USMS will conduct periodic auctions to sell cryptocurrency. Proceeds from the sale of cryptocurrency will be deposited into the Treasury Forfeiture Fund (TFF) and credit for the proceeds will be applied to HSI.

HSI may authorize local liquidation of Altcoins held in cold storage by CBP FPFO in accordance with a pre- forfeiture court ordered sale or consent to liquidate. Local liquidation, conversion of cryptocurrency or use of alternate cryptocurrency exchange platforms for disposal methods must be approved by HSI. Proceeds from the sale of locally liquidated Altcoins will be deposited into the TFF and credit for the proceeds will be applied to HSI.

## 3. *Financial Reporting*

Due to the nature of the asset, all Cryptocurrencies are treated like intangible assets with an indefinite life. The accounting for a recognized intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized; an intangible asset with an infinite useful life is not amortized, therefore cryptocurrency will not be amortized. OFM will receive a record of cryptocurrency acquisition and liquidation from HSI. Cryptocurrency acquired during undercover operations is not recorded in the asset management system in order to maintain the covert nature of the operation. It is tracked separately by HSI and provided to OFM on the 20$^{th}$ calendar day of every month for financial reporting.

### 3-1   Data Sources

The cryptocurrency data certification template is populated by HSI and provided to OFM on the 20th calendar day of every month via email. HSI is responsible for certifying the completeness and accuracy of the data by providing OFM a signed certification page (see Appendix A). OFM will not accept any reports without a completed certification page that is signed and dated by HSI.

### 3-2    Data Valuation

a. Seizure/Storage of Cryptocurrency

Upon seizure of Cryptocurrency, HSI will notify the designated Asset Forfeiture Unit (AFU) seized property point of contact (POC) within 3

calendar days. Subsequently, HSI will request, through AFU, a Bitcoin wallet for cold storage of the seized Bitcoin(s).  USMS will create and provide a unique wallet in accordance with each request and provide the public key to AFU. AFU will provide the public key to HSI, HSI will initiate the transfer of the Cryptocurrency to USMS. Once seizure is completed, HSI will transfer Cryptocurrency to USMS for long-term storage within 5 calendar days from the date of seizure, pending forfeiture.

b. Forfeiture of Cryptocurrency

All seized Cryptocurrency must undergo respective administrative, civil, or criminal forfeiture proceedings prior to liquidation. HSI must contact U.S. Customs and Border Protection (CBP) Fines, Penalties and Forfeitures Office (FPFO) to initiate the Administrative Forfeiture process within 15 calendar days of the date of seizure. Upon forfeiture of Cryptocurrency, HSI must provide AFU with a forfeiture order and any other supporting documentation deemed applicable. HSI will coordinate the liquidation of forfeited Cryptocurrency with USMS. USMS will conduct periodic auctions to sell Cryptocurrency. Proceeds from the sale of Cryptocurrency will be deposited into the Treasury Forfeiture Fund (TFF) and credit applied to HSI.

c. OFM obtains the current period data from HSI via the certification page. Cryptocurrency price is derived from two publicly available websites each quarter. To avoid timing volatility, the price is either pulled from the websites on the same day each quarter or using historical data features available on the websites. OFM uses CoinDesk and Investing.com websites to determine the required accounting entries and valuation of cryptocurrency to be posted into the general ledger.

## Procedures

OFM is responsible for coordinating with HSI on a monthly basis to facilitate the collection of relevant documentation to support general ledger entries. For further guidance please review OFM's Personal Property Standard Operating Procedures for details related to financial entries for cryptocurrency transactions.

# Authorities and References

**Authorities**

Treasury Executive Office for Asset Forfeiture Directive 10, Management of
Seized and Forfeited Bitcoin, dated August 17, 2016, or as updated

**References**

OFM Personal Property Standard Operating Procedure

## Appendix A: Data Certification Page

| Cryptocurrency Data Template | | | |
| --- | --- | --- | --- |

| Point of Contact | | For OFM Processing | |
| --- | --- | --- | --- |
| CUFFS Administrator Name* | | Bureau | ICE |
| E-Mail* | | Property Type | Other Assets |
| Phone Number* | | GL End Date | |
| Date* | | Form Completion Date | |
| Balances as of Date* | | Date Form Received | |
| I certify as the CUFFS Administrator that, to the best of my knowledge that the cryptocurrency data reported to OFM is complete and accurately reflects the types and balances as of the reporting period. | | Property Accountant Name | |
| CUFFS Administrator Signature* | | Property Accountant Signature | |

* Required Field

| SAC Division | Cryptocurrency Type* | Cryptocurrency Quantity * | Additional Note |
| --- | --- | --- | --- |
| Example: | | | |
| *3* | *Bitcoin* | *1.2500* | *N/A* |

## <u>Glossary</u>

| Acronym | Definition |
| --- | --- |
| CBP | Customs and Border Protection |
| CFO | Office of Chief Financial Officer |
| DHS | Department of Homeland Security |
| FMPM | Financial Management Policy Manual |
| FPFO | Fines, Penalties and Forfeitures Office |
| GAAP | General Accepted Accounting Principles |
| HSI | Homeland Security Investigations |
| ICE | Immigration and Custom Enforcement |
| OMB | Office of Management and Budget |
| OFM | Office of Financial Management |
| TFF | Treasury Forfeiture Fund |
| USMS | United States Marshals Service |

| Term | Definition |
| --- | --- |
| Altcoin | All cryptocurrencies other than Bitcoin. |
| Bitcoins | A type of decentralized cryptocurrency that can be bought, sold, and traded for U.S. dollars or other currencies, and used as a medium of exchange to purchase goods and services. |
| Blockchains | A public ledger of all transactions for a digital currency. |
| Cold Storage | A data storage method that is not directly connected to a computer or alternate processing unit (also known as "offline wallet" or hardware wallet). |
| Cryptocurrency | An encrypted, decentralized digital currency or asset that can be bought, sold, and traded for U.S. dollars or other currencies. |
| Digital Currency | A centralized or decentralized digital representation of value that is issued by neither a central bank nor a public authority but is accepted by persons as a means of payment or is exchanged based on its value and can be transferred, stored, and traded electronically. |
| Fiat Currency | Refers to currency authorized or adopted by a government as a part of its currency (also known as legal tender or money). |
| Intangible Assets | Assets (not including financial assets) that lack physical substance. |

| Tokens | A piece of business logic coded into an existing blockchain. |
|--------|--------------------------------------------------------------|
| Wallet | A cryptocurrency wallet is a secure digital wallet used to store, send, and receive digital currency; wallets are software and are used to view cryptocurrency balances and make transactions. |