A DIGITAL ASSET BALANCE SHEET: A NEW TOOL FOR FINANCIAL PLANNERS

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Financial planners are increasingly encouraged to discuss digital asset planning issues with clientele. Typically, these discussions involve prompting clients to identify and maintain records regarding online accounts, computer files, domain names, social media information, and important passwords. This paper adds to the tools financial planners can use when working with clients by presenting a digital asset balance sheet. The sheet is intended to provide a structure to help clients document which digital assets are owned, how much these assets may be worth, and whether ongoing liabilities may be associated with the ownership or possession of such assets. This paper also provides information about the ownership characteristics of some digital consumer assets.

Introduction

The concept of digital legacy planning has recently gained recognition as an important financial planning topic. Articles on preserving digital assets after death have appeared in diverse publications, including *The Wall Street Journal* (Greene, 2012), the American Airlines magazine—*AmericanWay* (Dobrow, 2012), and *The Journal of Financial Planning* (Hopson & Hopson, 2012). In order to fully appreciate the interest in digital asset protection within the context of estate planning, it is first important to have a clear definition of a digital asset. According to Beyer and Cahn (2012), digital assets include (a) online accounts, (b) files stored on computers, (c) files stored online, (d) files stored in the "cloud", (e) domain names, (f) online business assets, (g) social media sites, and (h) sometimes hardware (e.g., flash and external hard drives). As new technologies evolve, this list is likely to increase.

A review of the existing literature surrounding the issue of digital asset planning indicates the following: financial advisors should be actively engaged in helping their clients identify, through a formal inventory, all digital property owned or controlled. Further, some have indicated a need to also inventory liabilities associated with digital asset ownership. For example, owning a domain name typically requires an ongoing registration fee which is a contractual obligation. If the fee is not paid, the client's ownership in a domain name may be forfeited.

There are many reasons why digital asset planning is important. Beyer and Cahn (2012) and Hopson and Hopson (2012) identified some of the most consequential reasons clients should engage in a digital asset inventory process. Of primary importance is the issue of respecting a client's wishes at death. It is probable that a client will want some of his or her online presence to last as a legacy, with other assets disappearing at death. If these wishes are not described in detail implementation becomes problematic. Also of importance is the need to minimize online identity theft risks. It is essential that a person's executor or estate administrator has access to key login information as a way to gain and secure access to online assets. This can only be done, efficiently, through the use of a formalized inventory system.

Some may conclude, after reading about digital asset planning, that much of the concern surrounding the disposition of these assets can be handled either through a person's will or through a power of attorney. In reality, neither of these estate planning tools is sufficient either to protect a client's privacy or to dispose of assets with the least hassle. Beyer and Cahn (2012), for example, noted that few financial institutions allow someone holding a power of attorney to gain access to an incapacitated or deceased person's accounts. The disposition of digital assets through a will is also somewhat problematic. Because assets named in a will become public record, this method of transference defeats a key reason for digital asset protraction; namely, minimization of identity theft threats. Assuming that a complete inventory exists, this, with a letter of last digital asset distribution instructions, could instead accompany a client's will. Alternatively, some clients, especially those with high value digital assets, might consider establishing a digital trust to hold assets.

Consider what could happen when a client fails to account appropriately for their digital assets. To begin with, the burden to track down accounts, passwords, and key documentation will fall on family members and/or the client's executor, thus increasing time and expenses associated with estate settlement. It is entirely possible that some accounts will be overlooked or undetected. Equally likely is the possibility that valuable assets will be unaccounted for in the gross estate and transferred to persons or entities counter to the client's wishes or at below market valuations. For example, Greene (2012) reported on the travails of a spouse whose husband did not fully account for his own and their joint digital assets. The spouse was unable to quickly or efficiently access important websites, take control over her husband's email accounts, or download important family documents. This example illustrates the need for a digital asset inventory for use by a client, his or her family, the family attorney, and the appointed estate executor.

What might a digital asset inventory or "balance sheet" look like? Table 1 provides a simple template to help financial advisors as they work with clients to develop such a document. As shown in the table, assets can be categorized in a number of ways (e.g., intellectual versus business property). To be useful, such a table should show the location of each asset. This might be a website address or, in the case of hard assets, the physical location. If a username and password are required to access the asset, these should be listed and updated on a regular basis.[1] Similarly, if a special identification number and/or answers to security questions are required to access an account these should be provided as well.

Table 1. Digital Asset Balance Sheet

Digital Assets	Location	Username	Password	Identification Number(s)	Security Question Answers	Fair Market Value (FMV)	Instructions				Distribution		
							Save	Maintain	Delete	Sell	Will/ Probate	Trust	Other
Intellectual Property Books List serve(s) Articles													

Blogs **Facebook®** **Twitter®** **Other Social Media**													
Digital Media **Photographs** **Historical Albums** **Music** **Video** **Video Game Property:** **Purchased Virtual Property** **Property Obtained**													

through Talent **Avatar (e.g., SecondLife®)** **Fantasy League** **Gambling Interests** **Other**													
Online Accounts **Protected Password Accounts:** **Brokerage Account** **Retirement Account** **Health Savings Account** **Flexible Spending**													

Account **Savings/Checking Account** **Subscription(s)** **Frequent Flier Account** **Other Loyalty Programs** **Other**													
Online Business Interests **Domain Name(s)** **Website(s)** **EBay Business** **Other Online Business**													
Email Account(s)													

Domain Name(s) **Online Backup Data** **Software** **Hardware** **Transferrable Licenses** **External Hard Drive** **External Digital Storage** **Other**													
Digital Liabilities						**Est. Present Value of Liability**	**Payment Instructions**						
Domain Hosting Contract(s) **Website Hosting**													

Contract(s) **Ongoing Intellectual Property Obligations** **Ongoing Digital Media Costs** **Ongoing Online Account Maintenance** **Ongoing Online Business Interests** **Other**							
Value of Assets							
Liabilities							
Digital Net Worth							

Also shown in the table is a column prompting a client to indicate the fair market value of the asset. It is important to note that not all digital assets have a market value, although all have at least some personal or family value. For the purposes of the inventory, only the fair market value should be listed. Unfortunately, this is not easy to calculate in most cases. In fact, quite a bit of confusion exists related to the valuation of digital assets. Some of this confusion arises from whether a financial advisor's client actually owns what is listed in the inventory.

Consider the ownership of music records, CDs, and cassettes. For several decades, consumers have been protected under what is known as the first sale doctrine. Section 109 of the U.S. Copyright Law makes provision for the purchase and resale of "phonorecords." Phonorecords are "records in which sounds, other than those accompanying a motion picture or audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be received, reproduced or otherwise communicated, either directly or with the aid of a machine or device."[i] The term "phonorecords" includes the material objects in which the sounds are first fixed. Does the current definition of a phonorecord include digitally downloaded music and movies? Unlike owning a music CD collection, which would be listed as an asset on a client's balance sheet (i.e., the client owns the property and may resell it at market value), the determination of whether to list MP3s or similar products can only be answered by understanding where the online data was obtained. It does not appear that Section 109 of the U.S. copyright law fully applies to most clients in the 21st century. Table 2 provides a summary of the ownership characteristics of some of the most popular consumer sites on the Internet.

As mentioned above, valuing digital assets can be quite challenging. Financial planners can play an important role in helping clients place a price on both intellectual and intangible assets by adopting valuation methods commonly used at the corporate level. Matsuura (2004) identified four common valuation models: (a) cost-based, (b) options-based, (c) income-based, and (d) market-based. The cost-based approach provides an estimation of replacement value by focusing on the costs to obtain, manage, and maintain an intangible asset. Several limitations are associated with this procedure. Of primary importance is the notion that what a client has invested may simply be a sunk cost; that is, the true value of the asset may be much less than what was spent developing the asset. Second, a cost-based approach fails to take into account the future value of an asset.

The option-based approach to asset valuation typically is used when intellectual property has the ability to be licensed. Because this is rarely the case with personally-owned digital assets, this method of price estimation is seldom used by financial planners. Occasionally, income-based valuation models are used to estimate asset values. As the name implies, the asset must provide some source of current income. For example, a digital book that generates royalties can be valued using an income-based model. Basically, this approach discounts royalty revenue to obtain a present value for the asset.

The most widely used approach to digital asset valuation is the market-based method. When possible, the value of an asset can be determined by estimating how much the asset has or might trade for in the secondary markets, or by obtaining valuation estimates of similar assets. Clients who own a domain name may find domain name valuation sites of interest. For example, valuate.com® provides an appraisal of domain names. Of course, this approach assumes that a market exists for an asset in order for an appraisal to work. Rather than assuming limited marketability, financial planners and their clients may be surprised to learn that robust markets exist on the Internet for online gaming and other digital assets. For example, massive multiplayer online role-playing games (MMORPG)—games that allow players to assume the role of a fictitious character—are quite large and active. Secondary markets for characters provide some liquidity for those who own these types of assets. MMORPGs, such as *World of Warcraft*®, often have more than 10 million players at any one time. According to Stephens (2002), "Players themselves earn money by selling in-game objects, such as magical swords, deeds to virtual pieces of land, and even characters, to other players desiring to advance more quickly in the game" (p. 1515). Active marketplaces, including gamewar.com®, allow players to buy, sell, or trade digital gaming assets,[ii] although it is important to note that like any traded commodity, the spread between bid and ask prices can be quite large. Markets for other digital assets also exist. For example, internet domain names can be purchased, sold, and auctioned through domain name listing sites, such as auctions.godaddy.com® and domaining.com®. While not every digital asset can be valued using market price data, it behooves financial planners and their clients to explore asset valuations through this process.

Also shown as a component of the inventory (Table 1) are spaces for a client's distribution instructions and preferred method of distribution. A check mark indicating whether an asset is to be saved or maintained, either as a business or legacy asset, or deleted or sold, will help to ensure that the client's wishes are completely implemented. Further, if a client has a strong desire to make public his or her distribution wishes, this should be indicted by marking the use of a will through the probate system. Typically clients will prefer that digital asset planning remain confidential. In these situations, the client should be clear when indicating this preference.

The concept of defining and managing a client's digital legacy will likely grow in importance in the future. This paper provides one framework for helping clients identify, categorize, and value their digital assets. Financial advisors are encouraged to adapt Table 1 to meet the needs of their clients. In the future, this digital balance sheet may look significantly different as new products and services enter the marketplace, but for now this form provides a starting point in client-planner discussions regarding digital legacies. A special note about Table 2 is warranted. While every attempt was made by the authors to validate the information in the table, it is important for readers to note that company policies change on a regular basis. Before implementing any recommendations or altering a client implementation strategy based on the table, additional due diligence on the part of the reader/advisor is required. The information, in other words, is presented for information purposes only, not as a definitive source of any company's policy.

Table 2. Examples of Ownership Characteristics of Consumer Digital Assets on the Internet

Internet Site	Is Asset Owned by Client?	Duration of Ownership	Is Asset a License?	Duration of License	Ease of Asset Transferability?	User Agreement Policies
Amazon	No	n.a.	Yes	Lifetime	Restricted	Customers are not allowed any resale or commercial use of an Amazon service. Users are not allowed to download or copy account information for another merchant or data gathering tools.
Apple: iTunes	No	n.a.	Yes	Lifetime	Very Limited	iTunes restricts usage of downloads to personal, noncommercial use on up to five computers, except for film rentals. Products can also be stored on up to five different accounts on compatible mobile devices. Free content provided by iTunes has an unlimited use. Audio playlists can be burned to CDs up to seven times. Copied CDs have the same usage rules as CDs purchased from the store. Product licenses for both music and movies are for personal use only, which means clients are not allowed to burn products for any reason other than their own personal use. Film rentals have more restrictions than music; these can only be viewed on one device at a time and must be watched within 30 days of downloading, and finished watching within 48 hours. Technically, a decedent could leave a user identification and password to his or her beneficiaries, but this would be in violation of the iTunes user agreement.

Blogger	Yes	Lifetime	No	n.a.	Broad	
Ebay	No	n.a.	Yes	Contract Period	Limited	The buy/sell contract will be voided at the client's death.
Facebook	Yes	Lifetime	No	n.a.	No	Facebook's licensing and usage of personal content is subject to each client's privacy and application settings. The license ends as soon as the property is deleted. Facebook has an option to "memorialize" accounts. The firm prefers to memorialize an account when a person dies, thus protecting the information in the account and restricting access to anyone. Confirmed immediate family members may choose to have the information deleted.
Google	No	n.a.	Yes	Lifetime	Restricted	Restrictions specify that account information must be kept confidential and that others are restricted from using a client's account information. Google has the right to disable an account, although it does not state under what exact conditions this will happen. Users are prevented from sharing content based on copyright protection laws. Under the Rights and Restrictions section of the Terms of Service, users are prohibited from sharing or lending any service with any person or institution except with express permission and enabled by Google. Google uses digital rights management software and watermarking to prevent content sharing.
Instagram	Yes	Lifetime	No	n.a.	Broad	
LinkedIn	Yes	Lifetime	No	n.a.	Limited	A "verification of death" form may be used to notify LinkedIn that a user has passed away, in which case the account will be terminated.
Posterous	Yes	Lifetime	No	n.a.	Broad	
Squarspace	Yes	Lifetime	No	n.a.	Limited	
Tumblr	Yes	Lifetime	No	n.a.	Broad	
Twitter	Yes	Limited	No	n.a.	Limited	Twitter has an inactivity policy where it will monitor account activity and delete any account that shows signs of inactivity for more than six (6) months. Twitter will only delete an account of a deceased person by request of an immediate family member or someone authorized to act on behalf of the deceased's estate, with appropriate documentation. Account login information will not be provided to anyone, regardless of their relationship to the deceased.
Webbly	Yes	Lifetime	No	n.a.	Broad	

WordPress	Yes	Lifetime	No	n.a.	Broad
Xanga	Yes	Lifetime	No	n.a.	Broad

Notes: n.a. = not applicable

Nearly all firms that provide access to digital assets prohibit impersonation of another person. Technically, controlling a deceased person's account would likely be classified as "impersonating" someone else; however, the table above assumes each social media service would not allow someone to control a deceased person's account.

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[i] As an alternative, those who are computer savvy may wish to explore the use of password manager software; password manager software allows clients to access password information through a single user-defined password, which then provides access to password information using any

web browser. If this approach is taken, it is still important to share the master password with a spouse, children, or attorney.

[i] http://www.law.cornell.edu/uscode/text/17/109

[ii] Valuation of MMORPG assets can range from a few to several thousand dollars.

The International Association of Registered Financial Consultants invites your school and your financial students to participate in the Financial Plan Competition scheduled for next school year. As we are judged the finalists of the 2013 contest, we have built on the success of that event and hope that you will join us for another, even more rewarding competition. ***Now is the time to complete a Participation Agreement for your school.***

For the 2014 competition we are announcing that the finalists and their faculty advisor will enjoy a 3 day, 2 night trip in May 2014 to ***Las Vegas, NV*** where they will present their comprehensive financial plan to a team of judges.

Here are highlights of the Plan Competition and some of the benefits your school and your students may earn:

- Students will prepare a comprehensive personal financial plan based on uniform data furnished by the IARFC.
- For consistent and objective judging, the students will all be required to use the same financial planning software.
- The IARFC will ***contribute*** (at no cost) comprehensive planning software, Plan Builder Financial, to the school for the use of students and faculty members.
- Faculty members may use the plans and the process as part of their particular course curriculum, if desired.
- Students must submit completed plans to the IARFC (postmarked or shipped) before January 31, 2014.
- Students may enter plans individually or they may join in teams of up to three students working together on one plan submission.
- The IARFC will judge all the submitted plans and select two plans as finalists.
- These two winning finalists or teams will personally present their plans to a panel of RFC judges in Las Vegas as the final judging criteria.

- The judges will announce the winner on or before June 1, 2014.
- Each participating school that submits a plan will receive a plaque recognizing the school and the department.
- Each student who submits a plan will receive a certificate of completion.
- Each of the finalist students will receive a certificate and wall plaque. As sponsors join the program, the IARFC may award additional prizes for the finalists and winners.
- The IARFC will provide national media releases on the Plan Competition and name the participating schools. The Association will distribute these media releases during and after the competition.

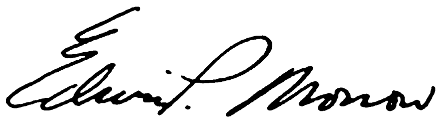
The IARFC is a non-profit professional association and the Plan Competition Committee includes educators and experienced financial service practitioners. Your school and department may consider the Plan Builder Financial Software a donation from the IARFC. The software will be licensed for use through the competition and by request, the individual student licenses can be extended at no cost to the end of 2014.

Do you wish to participate? If so, please designate the appropriate faculty member through whom we will coordinate all the information, distribution and communications. Complete the Participation Agreement for online submission at www.IARFC.org\ParticipationForm

We will begin the process of distribution of the sample case data and the software for student use after we receive this form. The deadline for registration is October 31, 2013.

Need more information? We have posted the rules and forms on the website: www.IARFC.org. Select Financial Plan Competition from within the blue box on the home page. (www.iarfc.org/FinancialPlanCompetition) Alternatively, for specific questions not addressed by the information on the website, send an e-mail to info@IARFC.org.

Cordially,



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