

FSCA Press Release

04 February 2021

Crypto health warning

The FSCA is receiving a large number of complaints from South African investors who have lost their savings through investing in a crypto-related investment that they did not understand, or a scam packaged as a crypto investment promising unrealistic high returns.

Cryptoassets, or cryptocurrencies as they are commonly called, are digital representations of value that are not issued by a central bank. Some of the more well-known cryptoassets include Bitcoin and Ethereum. Cryptoassets are traded, transferred and stored electronically. They have been used for payments, investments and capital-raising.

Crypto-related investments are not regulated by the FSCA or any other body in South Africa. As a result, if something goes wrong, you're unlikely to get your money back and will have no recourse against anyone.

As the popularity of cryptoassets increases, we remind consumers to understand what they are investing in and the financial risks involved:

- Crypto investment firms may be overstating potential pay-outs or understating the risks.
- Investing in crypto assets, or investments and lending linked to them, generally involves taking very high risks with investors' money, which mean that you should be prepared to lose all of your money.
- There is no guarantee that crypto assets could be converted back into cash, putting consumers at the mercy of supply and demand in the market.
- The price of crypto assets is dictated by the underlying mood or sentiment of the general public with no underlying basis for value determination. The prices are driven by the worldwide sentiment which is driven by persons who have an interest in the value of the crypto asset being driven up. Many concepts used by multi-level marketers and Ponzi scheme operators are being applied to make potential investor afraid of being left out and perpetrating the cycle of new investors acquiring the crypto asset thus driving the price up. In the end there is no guarantee that when you wish to sell, the sentiment will still exist and that buyers will even exist or be available to acquire the crypto asset from you.
- There is often high price volatility placing even greater financial risk to consumers.

The FSCA therefore cautions potential investors of the following:

- Regardless of the level of risk which investors are prepared to accept, investors are urged to ensure that crypto assets, if purchased, should only make up a small proportion of their investment portfolio.

- The risk of losing all of the money invested in schemes promising high returns means that prospective investors should, before investing, obtain proper advice regarding the overall suitability of such high-risk product in your investment portfolio and the impact on it should it fail.
- You are urged to invest with open eyes as to the high risks involved, understanding that these type of investments are not appropriate for the vast majority of the South African population and that more appropriate and balanced investment products are available and offered by licensed Financial Service Providers regulated by the FSCA;
- Do not be pressured to go with the flow and do not be afraid of being left out of the “next big thing”.
- There are no safe “quick rich” schemes in the world. When it comes to your retirement, take a prudent and responsible approach and never put a large percentage of your wealth into any investment product. Diversification of risk is the most important principle for long term wealth creation and preservation.

The high risks already inherent in crypto assets is further being compounded by scam activity, as well as unregulated firms targeting consumers with marketing material that highlights the rewards, but not the potential downside, of investing in crypto assets. It is for this reason that the FSCA is working at finding measures to regulate certain aspects and players in the crypto asset space. These measures will be rolled out during the coming months and we are working with other members of the Intergovernmental Fintech Working Group (IFWG) to better understand and regulate where appropriate crypto assets in South Africa.

Retirement fund trustees must also remain vigilant in their fiduciary duties before mandating investment managers to expose their fund assets to risks associated with crypto assets. The FSCA currently discourages such investments by retirement funds until regulation has been finalised to safeguard investors.

The FSCA reminds you of the old saying: “if an investment looks too good to be true, it usually is”.

ENDS

Enquiries: Financial Sector Conduct Authority

Email address: fscacommunications@fsc.co.za

Telephone: 012 422 2842