

## Office of Financial Institutions Reminds Louisiana Investors to Approach Cryptocurrency with Caution

**[January 9, 2018]** – With cryptocurrencies continuing to attract headlines, the Louisiana Office of Financial Institutions (OFI) today reminded Louisiana investors to be cautious about investments involving cryptocurrencies.

“Investors should go beyond the headlines and hype to understand the risks associated with investments in cryptocurrencies, as well as cryptocurrency futures contracts and other financial products where these virtual currencies are linked in some way to the underlying investment,” said OFI Commissioner John Ducrest.

Cryptocurrencies are a medium of exchange that are created and stored electronically in the blockchain, a distributed public database that keeps a permanent record of digital transactions. Current common cryptocurrencies include Bitcoin, Ethereum and Litecoin. Unlike traditional currency, these alternatives have no physical form and typically are not backed by tangible assets. They are not insured or controlled by a central bank or other governmental authority, cannot always be exchanged for other commodities, and are subject to little or no regulation.

A survey of state and provincial securities regulators by the North American Securities Administrators Association (NASAA), of which OFI is an active member, shows 94 percent believe there is a “high risk of fraud” involving cryptocurrencies. Regulators also were unanimous in their view that more regulation is needed for cryptocurrency to provide greater investor protection.

“The recent wild price fluctuations speculation in cryptocurrency-related investments can easily tempt unsuspecting investors to rush into an investment they may not fully understand,” Ducrest said. “Cryptocurrencies and investments tied to them are high-risk products with an unproven track record and high price volatility. Combined with a high risk of fraud, investing in cryptocurrencies is not for the faint of heart.”

Last month, NASAA identified Initial Coin Offerings (ICOs) and cryptocurrency-related investment products as emerging investor threats for 2018. Unlike an Initial Public Offering (IPO) when a company sells stocks in order to raise capital, an ICO sells “tokens” in order to fund a project, usually related to the blockchain. The token likely has no value at the time of purchase. Some tokens constitute, or may be exchangeable for, a new cryptocurrency to be launched by the project, while others entitle investors to a discount, or early rights to a product or service proposed to be offered by the project.

NASAA offers a short [animated video](#) to help investors understand the risks associated with ICOs and cryptocurrencies. NASAA and its members first alerted investors of the risks associated with cryptocurrencies in 2014.

### Common Cryptocurrency Concerns

*Some common concerns investors should consider before investing in any offering containing cryptocurrency include:*

- Cryptocurrency is subject to minimal regulatory oversight, susceptible to cybersecurity breaches or hacks, and there may be no recourse should the cryptocurrency disappear.
- Cryptocurrency accounts are not insured by the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits up to \$250,000.
- The high volatility of cryptocurrency investments makes them unsuitable for most investors, especially those investing for long-term goals or retirement.

- Investors in cryptocurrency are highly reliant upon unregulated companies, including some that may lack appropriate internal controls and may be more susceptible to fraud and theft than regulated financial institutions.
- Investors will have to rely upon the strength of their own computer security systems, as well as security systems provided by third parties, to protect purchased cryptocurrencies from theft.

### **Common Red Flags of Fraud**

*The Louisiana Office of Financial Institutions (OFI) also reminds investors to keep watch for these common red flags of investment fraud:*

- **“Guaranteed” high investment returns.** There is no such thing as guaranteed investment returns, and there is no guarantee that the cryptocurrency will increase in value. Be wary of anyone who promises a high rate of return with little or no risk.
- **Unsolicited offers.** An unsolicited sales pitch may be part of a fraudulent investment scheme. Cryptocurrency investment opportunities are promoted aggressively through social media. Be very wary of an unsolicited communication—meaning you didn’t ask for it and don’t know the sender—about an investment opportunity.
- **Sounds too good to be true.** If the project sounds too good to be true, it probably is. Watch out for exaggerated claims about the project’s future success.
- **Pressure to buy immediately.** Take time to research an investment opportunity before handing over your money. Watch out for pressure to act fast or “get in on the ground floor” of a new tech trend.
- **Unlicensed sellers.** Many fraudulent investment schemes involve unlicensed individuals or unregistered firms. OFI can help investors research the background of those selling or advising the purchase of an investment.

The Louisiana Office of Financial Institutions can be reached toll-free at 1-877-516-3653 or through their website at [www.ofi.la.gov/SecuritiesInvestorEd.htm](http://www.ofi.la.gov/SecuritiesInvestorEd.htm). The website is updated monthly with new investor protection resources