



CAYMAN ISLANDS MONETARY AUTHORITY

23 April 2018

PUBLIC ADVISORY – Virtual Currencies

The Cayman Islands Monetary Authority (CIMA) is issuing an advisory on the potential risks of investments in Initial Coin Offerings (ICOs) and all forms of virtual currency. ***Customers should thoroughly research virtual currencies, digital coins, tokens, and the companies or entities behind them in order to separate fiction from facts.***

The recent publicity surrounding virtual currencies (e.g. Bitcoin and Ripple) and ICOs presents a tempting picture of high returns on investment. **High reward investment scenarios have high potential for financial loss and fraud.** Potential investors can be easily lured with the promise of high returns in a new investment and may be less skeptical when assessing the risks. The block chain technology associated with ICOs and virtual currencies may create a false sense of security for the investor and obscure the true risks associated with the individual instruments.

What is an ICO?

Some startup companies are using initial coin offerings, also called ICOs or token sales, to raise capital. In an ICO, a company creates a new virtual coin or token that is offered for sale to the public. Investors should be aware that the typical ICOs do not give any ownership rights in the company; neither is it an investor loan to the issuer. **ICOs are often unregulated and involve new technologies and products that are highly technical and complex.** Furthermore should a regulatory body in the country where the ICO is based and/or issued deem the token to be a security issued in breach of securities laws, it could have a significant negative impact on the company and the token's value or usability. As a result, investors can lose some or all of the money they invest.

There are a number of **risks** associated with ICOs and virtual currencies, such as:

1. Potential for incomplete information on the investment;
2. A high degree of technical expertise needed to understand the investment;
3. Exaggerated expected returns;
4. Rapidly changing prices;
5. Potential for not being able to resell the virtual currency;
6. Potential for losing the investment to hackers;
7. No regulatory protection for the investor;
8. Funds raised could be used to finance terrorism; and
9. Fraud

Globally, there have been documented cases where the money raised through an ICO has disappeared without a trace. Tracking or recovering invested funds can be difficult because criminals often operate through servers in many jurisdictions often using tools that mask the Internet Protocol (IP) address of the user. Additionally, because there is no due diligence on the founders and promoters of a technology they can market under assumed names.

Red Flags:

The public should be aware of the following red flags to help identify potentially fraudulent ICOs:

- Claims of endorsements by CIMA
- There is limited information about the investment, the project and the development team, including insufficient or vague technical information relating to the coin
- The promoters are pushing for you to make a quick decision which may include alluding that well-known persons are investors or associated with the project
- There is an aggressive marketing campaign around the ICO, with promises of large or quick returns
- The project developers are anonymous

Protect Yourself

The best protection for customers is to only purchase virtual currencies, digital coins, or tokens that they have thoroughly researched. Remember:

- Virtual currencies are ***not legal tender*** in the Cayman Islands and most countries; no one is obligated to accept them as payment; and they **cannot be redeemed** by the Authority
- CIMA **does not** give endorsements to any investment product or company
- Independently check claims of regulatory or government endorsements directly with the regulator or government department; **do not** use the links or numbers provided by the seller
- **Do not** purchase digital coins or tokens because of a single recommendation, especially if it comes over social media
- **Do not** believe promises of quick wealth
- There is no such thing as a guaranteed investment or trading strategy. If someone tells you there is no risk of losing money, **do not invest**.
- If it sounds too good to be true, it usually is.

If you believe that you are a victim of a fraud involving virtual currencies, contact the **Financial Crimes Unit of the Royal Cayman Islands Police Service immediately at 649-8797**.

For a list of entities regulated or supervised by the Cayman Islands Monetary Authority, visit www.cima.ky