BANKING & FINANCE

The FSCA issues warning on investing in crypto assets

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by Natalie Scott, Director; and Kyra South, Associate

In the wake of the recent Mirror Trading International Proprietary Limited debacle, the Financial Sector Conduct Authority ("**FSCA**") has again cautioned investors against investing in crypto assets, which are currently not regulated by the FSCA. In a press release issued by the FSCA on 4 February 2021, investors were warned of a number of high risks associated with investing in crypto assets, which include the following –

- crypto investment firms (i) overstate the amount of expected returns on investments and (ii) understate the high risks and price volatility associated with crypto asset investments;
- once an investor has invested in crypto assets, there is no guarantee that said investor will receive his/ her/ its initial investment back, and as such, investors must be prepared to lose 100% of his/ her/ its investment; and
- unlike fiat currencies and other commodities, the price of crypto assets is exclusively determined by consumer sentiment, which results in high price volatility.

On 20 November 2020, the FSCA published a draft declaration in which the FSCA proposes to regulate crypto assets by bringing crypto assets within the ambit of the definition of "financial product" in Section 1 of the Financial Advisory and Intermediary Services Act 37 of 2002 ("**Draft Declaration**")[1]. The publication of the Draft Declaration is indicative of the increasing number of South African investors who are opting to invest in crypto assets without the protection typically afforded to South African investors, which leaves said investors vulnerable to unlicensed, unqualified and/or unscrupulous service providers.

To quote the FSCA, "*if an investment looks too good to be true, it usually is*".

[1] For more information on the Draft Declaration, click here.



Natalie Scott

Head of Sustainability

View Profile



Kyra South

Director

View Profile