



## Customer Advisory: Understand the Risks of Virtual Currency Trading

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The U.S. Commodity Futures Trading Commission (CFTC) is issuing this customer advisory to inform the public of possible risks associated with investing or speculating in virtual currencies or recently launched Bitcoin futures and options.

Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, or a store of value, but it does not have legal tender status. Virtual currencies are sometimes exchanged for U.S. dollars or other currencies around the world, but they are not currently backed nor supported by any government or central bank. Their value is completely derived by market forces of supply and demand, and they are more volatile than traditional fiat currencies. Profits and losses related to this volatility are amplified in margined futures contracts.

For hedgers – those who own Bitcoin or other virtual currencies and who are looking to protect themselves against potential losses or looking to buy virtual currencies at some point in the future – futures contracts and options are intended to provide protection against this volatility. However, like all futures products, speculating in these markets should be considered a high-risk transaction.

### Bitcoin is a Commodity

Bitcoin and other virtual currencies have been determined to be commodities under the **Commodity Exchange Act** (CEA). The Commission primarily regulates commodity derivatives contracts that are based on underlying commodities. While its regulatory oversight authority over commodity cash markets is limited, the CFTC maintains general anti-fraud and manipulation enforcement authority over virtual currency cash markets as a commodity in interstate commerce.

### What makes virtual currency risky?

Purchasing virtual currencies on the cash market – spending dollars to purchase Bitcoin for your personal wallet, for example – comes with a number of risks, including:

- most cash markets are not regulated or supervised by a government agency;
- platforms in the cash market may lack critical system safeguards, including customer protections;
- volatile cash market price swings or flash crashes;
- cash market manipulation;
- cyber risks, such as hacking customer wallets; and/or
- platforms selling from their own accounts and putting customers at an unfair disadvantage.

It's also important to note that market changes that affect the cash market price of a virtual currency may ultimately affect the price of virtual currency futures and options.

**When customers purchase a virtual currency-based futures contract, they may not be entitled to receive the actual virtual currency, depending on the particular contract.** Under most futures contracts currently being offered, customers are buying the right to receive or pay the amount of an underlying commodity value in dollars at some point in the future. Such futures contracts are said to be “cash settled.” Customers will pay or receive (depending on which side of the contract they have taken –

long or short) the dollar equivalent of the virtual currency based on an index or auction price specified in the contract. Thus, customers should inform themselves as to how the index or auction prices used to settle the contract are determined.

**Entering into futures contracts through leveraged accounts can amplify the risks of trading the product.** Typically, participants only fund futures contracts at a fraction of the underlying commodity price when using a margin account. This creates “leverage,” and leverage amplifies the underlying risk, making a change in the cash price even more significant. When prices move in the customers’ favor, leverage provides them with more profit for a relatively small investment. But, when markets go against customers’ positions, they will be forced to refill their margin accounts or close out their positions, and in the end may lose more than their initial investments.

### **Beware of related fraud**

Virtual currencies are commonly targeted by hackers and criminals who commit fraud. There is no assurance of recourse if your virtual currency is stolen. Be careful how and where you store your virtual currency. The CFTC has received complaints about virtual currency exchange scams, as well as Ponzi and “pyramid” schemes.

If you decide to buy virtual currencies or derivatives based on them, remember these tips:

- If someone tries to sell you an investment in options or futures on virtual currencies, including Bitcoin, verify they are registered with the CFTC. Visit [SmartCheck.gov](https://www.smartcheck.gov) to check registrations or learn more about common investment frauds.
- Remember—much of the virtual currency cash market operates through Internet-based trading platforms that may be unregulated and unsupervised.
- Do not invest in products or strategies you do not understand.
- Be sure you understand the risks and how the product can lose money, as well as the likelihood of loss. Only speculate with money you can afford to lose.
- 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.
- Investors should conduct extensive research into the legitimacy of virtual currency platforms and digital wallets before providing credit card information, wiring money, or offering sensitive personal information.
- The SEC has also warned that some token sales or initial coin offerings (ICOs) can be used to improperly entice investors with promises of high returns.<sup>1</sup>

If you believe you may have been the victim of fraud, or to report suspicious activity, contact us at 866.366.2382 or visit [CFTC.gov/TipOrComplaint](https://www.cftc.gov/TipOrComplaint).

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<sup>1</sup> See [https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib\\_coinofferings](https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_coinofferings).