Risk warning on cryptocurrency

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All clients wishing to invest in cryptocurrency should carefully read this document. Trading in cryptocurrency involves significant risks, in addition to the general risks associated with financial instruments.

A cryptocurrency is a virtual currency that is not issued or backed by a central bank or government. It can experience significant price volatility which, in combination with leverage, can place you at risk of suffering significant losses and potentially losing more than you have invested.

Nevertheless, investing in a virtual currency can be subject to security and scalability risks, as well as technological issues.

You should be aware of the risks involved and fully consider whether investing in cryptocurrency is appropriate for you.

What are the risks?

The Cryptocurrency Service is unregulated

Although some service providers may have a license for crypto related activities and can be subject to regulation, the cryptocurrency service is still not governed by any specific framework in most countries of the world. Also, when you use the cryptocurrency service, you will not benefit from the protections available to customers receiving regulated banking/e-money/payment services. Funds received in relation to cryptocurrency transactions will not be safeguarded (under the UK Electronic Money Regulations 2011) or covered by the Financial Services Compensation Scheme

Trading in cryptocurrencies carries special risks

Cryptocurrencies also carry special risks not generally shared with official currencies or goods or commodities in a market. Unlike most currencies, which are backed by governments or other legal entities, or by commodities such as gold or silver, cryptocurrency is a unique medium of exchange, in that there is no central bank that can take corrective measures to protect the value of cryptocurrency in a crisis.

Instead, cryptocurrencies are an as-yet autonomous and largely unregulated worldwide system of currency. Traders of such currencies put their trust in a digital, decentralized and partially anonymous system that relies on peer-to-peer networking and cryptography to maintain its integrity.

Price volatility

The value of cryptocurrencies, is extremely volatile. They are vulnerable to sharp changes in price due to unexpected events or changes in market sentiment.

The market for the cryptocurrencies is still relatively new and uncertain. The price or value of cryptocurrency can rapidly increase or decrease at any time and may even fall to zero. The risk of loss in trading or holding an interest in cryptocurrencies can be substantial and can result in the loss of the entire value of your interest in cryptocurrency.

The cryptocurrency market is highly susceptible to market manipulation and other misuse for illegal activities. The market is likely to be adversely affected if law enforcement agencies investigate any allegedly illegal activities on the cryptocurrency exchange or any other cryptocurrency platform.

More generally, cryptocurrencies are susceptible to bubbles or loss of confidence (irrational or otherwise), which could collapse demand relative to supply. For example, confidence might collapse in any given cryptocurrency because of unexpected changes imposed by the software developers or others, a government crackdown, the creation of superior competing alternative currencies, or a deflationary or inflationary spiral. Confidence might also collapse because of technical problems: if the anonymity of the system is compromised, if money is lost or stolen, or if hackers or governments are able to prevent any transactions from settling.

When compared with currencies, there can be more significant variations in the pricing of cryptocurrencies, depending where you buy it. There is a greater risk you will not receive a fair and accurate price for the underlying cryptocurrency when trading.

Cryptocurrency Exchanges are vulnerable to cyber attacks

Cryptocurrency exchanges are entirely digital and, as with any virtual system, are at risk from hackers, malware and operational glitches. Even though cryptocurrency exchanges take various steps to preserve the security of their platforms, cryptocurrency which is held in wallets provided by such exchanges remain vulnerable to hacking.

If a thief gains access to one or more cryptocurrencies (i.e. by stealing the private encryption key to the cryptocurrency exchange wallets), he/she could transfer the stolen assets to another account. This is particularly problematic since all cryptocurrency transactions are permanent and irreversible.

Accordingly, a hack is likely to lead to substantial depletion of the cryptocurrency held on your behalf. Whilst the cryptocurrency exchange may be willing to compensate users for any such loss, they are not obliged to do so. A serious hack could also have the effect of putting a cryptocurrency exchange into insolvency.

Cryptocurrencies (and the fiat currency used to buy/sell them) are held in custody by a third party

When you use the cryptocurrency service to buy interests in one or more of the cryptocurrencies, they will be held on your behalf by a third party (usually the exchange) who will act as custodian (the "Custodian"). Records will be held by the cryptocurrency exchange and us to show that the cryptocurrencies are held on your behalf and do not belong to any third party.

The cryptocurrencies may be held on an "omnibus basis" with the Custodian, which means that your interests may be held at a single blockchain address together with those of other customers of that Custodian. If the Custodian becomes insolvent, there may be delays in identifying the assets belonging to you. There may be also be an increased risk of loss if there should be a shortfall between the assets held in the Custodian's omnibus account and the claims of all of its customers (in which case, you may have to share proportionately in that shortfall with other customers).

Otherwise, in the event of insolvency of the Custodian, please note there is no specific legal protection that covers you for losses arising from any cryptocurrencies that were held with such Custodian. This could mean that you have no specific rights under insolvency law to recover cryptocurrency held by the Custodian and you may be treated as an ordinary creditor of the same.

When you sell your interests in the cryptocurrencies, the proceeds from the sale will be held in a pooled segregated bank account of the cryptocurrency exchange. As with the cryptocurrencies, records will be held by the cryptocurrency exchange and us to show that funds are held on your behalf and do not belong to any third party. In the event of the cryptocurrency exchange's insolvency, you may be able to claim for the return of your fiat currency from this pool.

The cryptocurrency exchange may suspend or terminate their service at any time

To provide the cryptocurrency service to you, we partner with one or more cryptocurrency exchanges to

(a) facilitate the buying and selling of interests in cryptocurrencies; and

(b) in some cases, hold the cryptocurrencies as Custodian.

Given the various risks attaching to cryptocurrency exchanges (including the uncertain legal environment), it is possible that a cryptocurrency exchange could suspend or terminate its relationship with us and sometimes won't tell us why. In these circumstances, we may have to suspend the cryptocurrency service ourselves but we will try to transfer the underlying cryptocurrency to another cryptocurrency exchange as soon as possible.

The legal status of cryptocurrency is uncertain and constantly evolving

Given that the market for cryptocurrencies is relatively new, the legal nature of cryptocurrency is – in most jurisdictions – yet to be determined by statute, regulation or case law. In the absence of such authority, it is not clear how a regulator or court may treat interests or rights arising trading in cryptocurrency. In particular, the law applicable to firms who hold cryptocurrencies in custody (particularly in the event of such firms' insolvency) is far from clear.

It is possible that a national or supranational regulator may take unilateral action to legislate the cryptocurrency market in a manner which prevents or encumbers the proper operation of the market in your jurisdiction.

The functioning of the cryptocurrency network is outside our control

Since the blockchain is an independent public peer-to peer network and is not subject to regulation or control by any authority or firm, we are not responsible for any failure, mistake, error and/or breach which shall occur on the blockchain or on any other networks in which the cryptocurrencies are being issued and/or traded.

We do not own or control the underlying software protocols which govern the operation of the cryptocurrencies. In general, the underlying protocols are open source and anyone can use, copy, modify, and distribute them.

The underlying protocols of the cryptocurrencies are subject to sudden changes in operating rules ('forks'), and such forks may materially affect the value, function, and/or even the name of the cryptocurrency.

Investing in cryptocurrency is not suitable and/or appropriate for all clients. You should only invest if you are an experienced investor with sophisticated knowledge of financial markets and you fully understand the risks associated with cryptocurrencies.

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