

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

MFSA WARNING

Notice addressed to the general public regarding virtual currencies

The Malta Financial Services Authority (“MFSA”) has taken note of recent articles in the media referring to virtual currency ATMs and the installation of a first such ATM in Malta.

The MFSA hereby informs the public that a virtual currency (also known as cryptocurrency) such as Bitcoin is an unregulated digital instrument used as a form of money that is not issued or guaranteed by a Central Bank or by any other authority and is not equivalent to traditional currencies. Unlike traditional money, acceptance of payment in virtual currency depends entirely on the voluntary consent of the recipient. Furthermore providers of services in relation to virtual currencies are currently neither regulated by law nor authorised by the MFSA.

‘Bitcoin’ is probably the most well known virtual currency, however there are a number of other virtual currencies. Virtual currencies are becoming increasingly popular and it is now possible to use virtual currencies as a means to pay for goods and services. However there are a number of possible risks when buying, holding or trading such virtual currencies, including the risk of losing your money.

The European Banking Authority had issued a warning about virtual currencies and this notice contains the salient aspects.

The public therefore should be aware of the following risks:

Money may be lost on the exchange platform

Virtual currencies may be obtained from someone who owns them or through an exchange platform. Currently exchange platforms are not normally regulated and in some cases they have failed or gone out of business with the consequence of consumers losing significant amounts of money. Exchange platforms are not banks and if an exchange platform loses any money or fails, there is no specific legal protection, such as through a deposit guarantee scheme.

Money may be stolen from your digital wallet

Virtual currency is stored in a ‘digital wallet’ on a computer. Although digital wallets have public and private keys or passwords they are still vulnerable to hackers. Virtual money may therefore be stolen from your wallet. Consumers losing virtual money have little prospect of having it returned. Furthermore if you lose the key or password to your digital wallet, your virtual money may be lost forever.

You are not protected when using virtual currencies as a means of payment

When using virtual currencies as a means of payment you are not protected by any refund rights under EU law. Unauthorised or incorrect debits from digital wallet can therefore not usually be reversed.

The value of virtual currency can change quickly, and could even drop to zero

Different virtual currencies have different values. Furthermore the value of virtual currencies can easily go down as well as up. Unlike the value of traditional currencies, there is no guarantee that the value of virtual currency funds remains stable.

Transactions in virtual currency may be misused for criminal activities

Transactions in virtual currencies are largely untraceable and provide a high degree of anonymity. This makes virtual currencies vulnerable to misuse for criminal activities such as money laundering. Law enforcement authorities may therefore decide to take action against or close exchange platforms and prevent you from accessing or using any digital funds that the platforms may be holding for you.

The MFSA therefore advises the public to exercise caution and be vigilant when dealing with virtual currencies and to ensure that they have understood the risks involved. If you buy virtual currencies, you should be fully aware and understand their specific characteristics. You should also exercise the same caution with your digital wallet as you would do with your conventional wallet. You should not keep large amounts of money in it and ensure you keep it safe and secure. You should also familiarise yourself with the ownership, reputability, transparency and public perception of the exchange platforms that you are considering using.

**Communications Unit
Malta Financial Services Authority
MFSA Warning: 04-2017
31 July 2017**