



Office of the Kansas Securities Commissioner

A division of the Kansas Insurance Department

Ken Selzer, CPA, Commissioner of Insurance
John Wine, Interim Securities Commissioner

For Immediate Release

Jan. 25, 2018

For more information:

Bob Hanson
Public Information Officer
785.296-7807
Bob.Hanson@ks.gov

Consumer Alert: Investors reminded to approach cryptocurrency with caution

TOPEKA, KS – With cryptocurrencies continuing to attract headlines, the Office of the Kansas Securities Commissioner reminds Kansas investors to be cautious about investments involving cryptocurrencies.

“Investors should go beyond the headlines and hype to understand the risks associated with investments in cryptocurrencies, as well as cryptocurrency futures contracts and other financial products where these virtual currencies are linked in some way to the underlying investment,” said John Wine, Securities Commissioner.

Cryptocurrencies are a medium of exchange created and stored electronically in the blockchain, a distributed public database that keeps a permanent record of digital transactions. Current common cryptocurrencies include Bitcoin, Ethereum and Litecoin.

Unlike traditional currency, these alternatives have no physical form and typically are not backed by tangible assets. They are not insured or controlled by a central bank or other governmental authority, cannot always be exchanged for other commodities, and are subject to little or no regulation.

A survey of state and provincial securities regulators by the North American Securities Administrators Association (NASAA), of which the Office of the Kansas Securities Commissioner is a member, shows 94 percent believe there is a “high risk of fraud” involving cryptocurrencies. Regulators also were unanimous that more regulation is needed for cryptocurrency to provide greater investor protection.

“The recent wild price fluctuations and speculation in cryptocurrency-related investments can easily tempt unsuspecting investors to rush into an investment they may not fully understand,” said Ken Selzer, CPA, Kansas Commissioner of Insurance. “Cryptocurrencies and investments tied to them are high-risk products with an unproven track record and high price volatility.”

The securities office is a division of the Kansas Insurance Department.

-More-



Office of the Kansas Securities Commissioner

A division of the Kansas Insurance Department

Ken Selzer, CPA, Commissioner of Insurance
John Wine, Interim Securities Commissioner

Unlike an Initial Public Offering (IPO) when a company sells stocks in order to raise capital, an Initial Coin Offering (ICO) sells “tokens” in order to fund a project, usually related to the blockchain. The token likely has no value at the time of purchase. Some tokens constitute, or may be exchangeable for, a new cryptocurrency to be launched by the project, while others may give investors a discount, or early rights to a product or service proposed to be offered by the project.

Common Cryptocurrency Concerns

Some common concerns investors should consider before investing in any offering containing cryptocurrency include the following:

- Cryptocurrency is subject to minimal regulatory oversight, susceptible to cybersecurity breaches or hacks, and there may be no recourse should the cryptocurrency disappear.
- Cryptocurrency accounts are not insured by the Federal Deposit Insurance Corporation (FDIC).
- The high volatility of cryptocurrency investments makes them unsuitable for most investors, especially those investing for long-term goals or retirement.
- Investors will have to rely upon the strength of their own computer security systems, as well as security systems provided by third parties, to protect purchased cryptocurrencies from theft.

Common Red Flags of Investment Fraud

Commissioner Wine also reminds investors to keep watch for these common red flags of investment fraud:

- **“Guaranteed” high investment returns.** There is no such thing as guaranteed investment returns, and there is no guarantee that the cryptocurrency will increase in value.
- **Unsolicited offers.** An unsolicited sales pitch may be part of a fraudulent investment scheme. Cryptocurrency investment opportunities are promoted aggressively through social media.
- **Sounds too good to be true.** If the project sounds too good to be true, it probably is. Watch out for exaggerated claims about the project’s future success.
- **Pressure to buy immediately.** Take time to research an investment opportunity before handing over your money.
- **Unlicensed sellers.** Many fraudulent investment schemes involve unlicensed individuals or unregistered firms. The KSC can help investors research the background of those selling or advising the purchase of an investment. Call 800-232-9580 or go online at www.ksc.ks.gov.

-30-

The mission of the Office of the Kansas Securities Commissioner (KSC) is to protect and inform Kansas investors; to promote integrity, fairness, and full disclosure in financial services; and to foster capital formation.