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Alaska Investors Advised to Approach Cryptocurrency with Caution

January 4, 2018 ANCHORAGE – With cryptocurrencies continuing to attract headlines, the Division of Banking and Securities reminds investors to be cautious about investments involving cryptocurrencies. The North American Securities Administrators Association (NASAA) identified initial coin offerings and cryptocurrency-related investment products as emerging investor threats for 2018.

“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 Kevin Anselm, director of the Division of Banking and Securities. “Cryptocurrencies and investments tied to them are high-risk products with an unproven track record and high price volatility. Combined with a high risk of fraud, investing in cryptocurrencies is not for the faint of heart.”

Cryptocurrencies are a medium of exchange that are 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.

Unlike an initial public offering (IPO) when a company sells stocks in order to raise capital, an initial coin offering 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 entitle investors to a discount, or early rights to a product or service proposed to be offered by the project.

Director Anselm went on to say, “Investors should go beyond the headlines and hype to understand the risks associated with investments in cryptocurrencies, cryptocurrency futures contracts, and other financial products that in some way link the virtual currencies to the underlying investment.”

Alaskans are encouraged to view the short [animated video](#) produced by NASAA to help potential investors understand the risks associated with cryptocurrencies.

Common Cryptocurrency Concerns

Some concerns investors should consider before investing in any offering containing cryptocurrency:

- 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), which insures bank deposits up to \$250,000.
- The high volatility of cryptocurrency investments makes them unsuitable for most investors, especially those investing for long-term goals or retirement.
- Investors in cryptocurrency are highly reliant upon unregulated companies, including some that may lack appropriate internal controls and may be more susceptible to fraud and theft than regulated financial institutions.
- 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 Fraud

Investors should also watch for these common warning signs 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. Be wary of anyone who promises a high rate of return with little or no risk.
- *Unsolicited offers*—An unsolicited sales pitch may be part of a fraudulent investment scheme. Cryptocurrency investment opportunities are promoted aggressively through social media. Be very wary of an unsolicited communication—meaning you didn’t ask for it and don’t know the sender—about an investment opportunity.
- *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. Watch out for pressure to act fast or “get in on the ground floor” of a new tech trend.
- *Unlicensed sellers*—Many fraudulent investment schemes involve unlicensed individuals or unregistered firms. The Division of Banking and Securities can help investors research the background of those selling or advising the purchase of an investment. The Division of Banking and Securities can be reached at (907) 269-8140 or securities@alaska.gov.

The Division of Banking and Securities is a division of the Department of Commerce, Community, and Economic Development tasked with protecting consumers in Alaska. For information about the division, visit commerce.alaska.gov/web/dbs. For additional information about the Department of Commerce, Community, and Economic Development and its other agencies, visit commerce.alaska.gov.

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