

**GUIDANCE NOTE TO THE PUBLIC
REGARDING CRYPTOCURRENCY SCAMS**



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1. Introduction

The Malta Financial Services Authority ('MFSA' or 'the Authority') is the single regulator for financial services in Malta. The MFSA regulates banking, financial institutions, insurance companies and insurance intermediaries, investment services companies and collective investment schemes, securities markets, recognised investment exchanges, trustees, company services providers and pension schemes. As of 2018, the Authority is also responsible for the regulation of the crypto-asset sphere, specifically for Virtual Financial Assets.

The MFSA has published a number of warnings regarding entities or websites which are of a dubious nature and which should therefore be avoided by consumers. The MFSA wishes to further educate the public on how to identify, avoid and the actions recommended, in the event that one encounters a scheme of a dubious nature in the crypto-asset sector.

In this light, this note is intended to provide consumers with guidance on what to look out for when investing in this sector. Having said that it is advisable that consumers interact with firms which are regulated and supervised.

2. General

What are virtual currencies?

The terms 'virtual currencies' and 'crypto-currencies' are used quite loosely and there is no agreed upon definition of either. Given the use of the word 'currency', both terms are misnomers since that they are not backed by any government or central bank. In simple terms, crypto-assets are limited entries in a database, that cannot be changed unless specific conditions are fulfilled, using cryptography to secure and verify all transactions and control the creation of any new units.

Licence and regulation

The Virtual Financial Assets Act ('VFAA' or 'the Act') came into force on the 1 November 2018. It does not speak of virtual currencies or crypto-currencies, but rather of virtual financial assets. In a nutshell it regulates the offering of virtual financial assets to the public and

services provided in relation to virtual financial assets, in or from Malta. It is emphasised that as at to date, there are no whitepapers¹ which have been registered with the MFSA and no entities licensed by the Authority under the VFA Act.

3. How does a scam start?

There are a number of ways one may come across a scam. One of the most common ways is by clicking on an advertisement regarding prospective investments, which may be present on various social media platforms or websites. Fraudsters may use clickbait titles to attract the user, such as *'get rich in one month'*, *'make money from home'* and even the illegal use of images of public figures in order to manipulate the public. You may also be approached without any initiative from your end. Scammers may use information which is publicly available on social media. When clicking on the advertisement you may be redirected to their website or asked for personal information, such as email and telephone number. You may then be contacted by a salesperson who will explain how easy, secure and quick you can make profit and convince you to invest or buy a product (for example a token or coin²). Some may also mention that their 'team of specialists' will invest and manage everything for you.

4. Is this a scam?

At first glance, scams typically give the illusion of a legitimate business and therefore may appear to be trustworthy. This sensation of trust is achieved by means of professional websites, and by 'employing' people who are friendly and open to answer all your questions. Such businesses may also claim to be authorised and regulated. All these actions are intended to provide you with a false sense of security.

A common type of cryptocurrency scams are fake ICOs (Initial Coin Offerings³). ICOs can be tricky for the unexperienced investor. Persons conducting scams may issue ICOs with no underlying value and which can only be used on the platform provided. These platforms may eventually be closed and disappear along with your money.

¹ Whitepaper - means a document which provides information on the initial coin offering

² Token/Coin – a term which is used to refer to the asset which is distributed to the investor following the Initial Coin Offering

³ Initial Coin Offering – the offering of coins to investors in return for funds

Similar scams may involve crowdfunding. Such 'businesses' will gather funds from unsuspecting investors with a promise of higher gains/boost in profit/lower starting price or other such advantages which may be availed of when the coin becomes active.

Other types of cryptocurrency scams include fake exchange platforms, fake e-wallet apps⁴ etc. Often in the beginning you will make attractive gains which will lead you to invest larger amounts of money. If you suffer losses, however, they will assure you that if you invest again you will gain all the money back and start making a profit. In such a scenario they might ask you for more money, possibly cut off contact with you and block access to your account once this is deposited.

Even though scams may vary in type, there are some consistent red flags which one may look out for, mainly:

- i. unrealistically high rates of return, higher than the market average;
- ii. easy withdrawals which may be made at 'anytime';
- iii. promises that any funds deposited are 100% guaranteed;
- iv. the business being unregulated;
- v. lack of documentation or the use of documentation which is copied from a legitimate business;
- vi. aggressive selling techniques which put pressure and rush you to secure a sale;
- vii. the absence of physical local offices;
- viii. contradiction between documents and spoken information;
- ix. not answering and avoiding hard questions;
- x. lack of information being provided on the website, or within the whitepaper;
- xi. the use of buzz words such as 'no risks', 'gains guaranteed', 'become a billionaire', 'free services just register'.

⁴ E-wallet apps - applications used to store crypto-assets

5. Staying safe when investing

The MFSA advises consumers of financial services to proceed with caution when investing, and not to invest in anything which they do not understand. Before proceeding to invest with any company, one should conduct appropriate research about the company and the people behind it. When a person or entity claims to be authorised or otherwise regulated by the MFSA, one should always check the veracity of such claims by confirming with the Authority's [Financial Services Register online](#). Should the consumer still be in doubt, one may contact the Authority by sending an email to info@mfsa.com.mt in order to obtain additional clarifications.

6. I think I've been scammed, what do I do?

If you are a victim of a scam or think you might be dealing with a scam, be it in the crypto-asset sphere or any other type of financial scam, one should immediately cease to conduct transactions with the company in question and contact the MFSA as soon as a suspicion arises.

And always remember - if it seems too good to be true, it probably is!