The Financial Stability Board warns the public about risks associated with the acquisition and possession of so-called cryptocurrencies

April 5th, 2018, Santiago. – The Financial Stability Board (for its acronym in Spanish CEF) chaired by the Minister of Finance and also made up of the Chairman of the Financial Market Commission, the Superintendent of Pensions and the President of the Central Bank of Chile (Banco Central de Chile), in his role as permanent advisor to this Council, analyzed in its last session, if the expansion of activities developed around the so-called cryptocurrencies represent significant risks for the Chilean Financial System and, a has set a working group which will continue to analyze this issue.

Although the Council discards the fact that these assets currently represent a threat to financial stability, it warns the public about the risks associated with the acquisition, tenure or investment in these kinds of assets.

The so-called cryptocurrencies are digital representations of value and seek to serve as virtual money. The best-known examples are Bitcoin and Ether, which have been used, among other things, as means of payment for the purchases of goods, services and financial instruments.

It is of utmost importance to inform investors and the market in general that these virtual assets are not issued or backed by central banks or other public authorities and, in most cases, their value derives solely from the trust of their users.

Furthermore, it is important to mention that in Chile there are currently no specific regulations for these assets, neither for their issuers and intermediaries. Therefore, since there is no sovereign issuer to back them and take on responsibility for maintaining their value, the Central Bank has established that these cannot be considered as “currencies” in the legal and conceptual sense of the term. For its part, the CMF has established that, within the current legal framework, the so-called cryptocurrencies cannot be considered as “securities” either.

In view of those considerations, the CEF warns that the purchase of so-called cryptocurrencies or other similar assets is a high-risk level activity. Due to their high volatility, investments in those assets can generate significant gains in short periods of time, as well as, the loss of a large part or even the entire amounts involved. The buyers, whether individuals or legal persons, are exposed, among others, to the following risks: *strong price fluctuations, potential difficulties to sell or exchange for other assets, lack of traditional assets as backup in most cases and, possible losses due to theft, fraud or difficulties regarding the available information.*

In addition, it warns the intermediaries, issuers and buyers that, although there is currently no specific regulation for so-called cryptocurrencies, these must comply with the legal and regulatory framework that is supplementary applicable to them and, are subject to comply with the general regulatory framework, which includes, among other things, the prevention of asset laundering and financing of terrorism, tax legislation and, as long as international exchange transactions are carried out, the exchange legislation and regulations of the Central Bank of Chile. Thus, these are exposed to legal sanctions and legal proceedings in case of breach of the mentioned regulations, or any other that may be applicable to them.

The Council emphasizes that this press release refers only to the risks associated with the acquisition and possession of so-called cryptocurrencies and similar items. Notwithstanding the foregoing, there are several technological developments in the financial industry, such as the application of Blockchain technology and distributed records, which can contribute to the efficiency of markets and to increase competition.

The Financial Stability Board will continue to analyze and monitor the development of this industry, as well as the potential impacts it could have on the local financial system, without discarding any regulatory option *a priori*, in order to facilitate technological innovation which benefits the public, but at the same time mitigates risks on the financial system.