In recent months, numerous cryptocurrencies, including Bitcoin and Ether, have experienced high price volatility, which has been accompanied by a significant increase in (sometimes aggressive) advertising to attract investors.

In 2018 the Banco de España and the CNMV already warned about the high risk posed by these types of investments owing to, among other factors, their extreme volatility, complexity and lack of transparency.

Crypto-assets, including cryptocurrencies and the supporting technology, may galvanise and modernise the financial system in the coming years, but the following aspects and risks must be taken into account when assessing their value as an investment alternative or their use as a means of payment:

**Regulatory sphere:** the European Union still lacks a regulatory framework that provides guarantees and safeguards similar to those applicable to financial products for crypto-assets such as Bitcoin. The EU is currently negotiating a Regulation (known as MiCA) which aims to establish a regulatory framework for the issuance of crypto-assets and their service providers.

From a legal standpoint, cryptocurrencies:

- are not considered a means of payment,
- are not backed by a central bank or other public authorities, and
- are not covered by customer protection mechanisms such as the Deposit Guarantee Scheme or the Investor Compensation Scheme.

**High-risk investment:** it is estimated that there are more than 7,000 cryptocurrencies in the market with features similar to those of the Bitcoin.

These are complex instruments that may not be appropriate for small-scale savers and their price has a high speculative component which may even entail the loss of the amounts invested.
There are also leveraged derivative products linked to cryptocurrencies through which it is possible to indirectly invest in them. This increases their complexity and the possibility of incurring losses higher than the initial investment even more. Therefore, extensive knowledge of cryptocurrencies and experience with them is required.

**Price setting:** many cryptocurrency prices are set without effective mechanisms to prevent their manipulation, such as those in regulated securities markets. On many occasions, prices are set without public information that supports them.

**Liquidity:** many of these cryptocurrencies can lack the liquidity needed to unwind an investment without incurring sizeable losses, particularly because their circulation among retail and professional investors is highly limited.

**Use as a means of payment:** despite having existed for over a decade, acceptance of cryptocurrencies as a means of payment remains very limited, in contrast to many other digital developments that have been broadly accepted in a much shorter period of time. It should be borne in mind that the acceptance of Bitcoin or any other crypto-asset as a means of payment of a debt or other obligation is not mandatory. The future MiCA Regulation does not anticipate any changes in this respect. Moreover, given their high volatility, cryptocurrencies do not properly fulfil the unit of account and store of value functions.

**Problems arising from their cross-border nature:** the various market participants involved in the issuance, custody and marketing of crypto-assets are often not based in Spain and, in some cases, they cannot even be located, meaning that the resolution of any dispute may be costly and lie outside the remit of the Spanish authorities.

**Theft, scams or loss:** the distributed ledger technology used to issue cryptocurrencies poses specific risks. Cryptocurrency custody is neither regulated nor supervised. The loss or theft of a private key can lead to the loss of the cryptocurrency, without the possibility of recovery. This risk needs to be assessed before acquiring such assets, regardless of whether the wallet¹ is self-managed or whether their custody is performed by third parties.

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¹ Usual mechanism for storing crypto-assets.