FCA bans the sale of crypto-derivatives to retail consumers

The FCA has published final rules banning the sale of derivatives and exchange traded notes (ETNs) that reference certain types of cryptoassets to retail consumers.

The FCA considers these products to be ill-suited for retail consumers due to the harm they pose. These products cannot be reliably valued by retail consumers because of the:

- inherent nature of the underlying assets, which means they have no reliable basis for valuation
- prevalence of market abuse and financial crime in the secondary market (eg cyber theft)
- extreme volatility in cryptoasset price movements
- inadequate understanding of cryptoassets by retail consumers
- lack of legitimate investment need for retail consumers to invest in these products

These features mean retail consumers might suffer harm from sudden and unexpected losses if they invest in these products.

Unregulated transferable cryptoassets are tokens that are not 'specified investments' or e-money, and can be traded, which includes well-known tokens such as Bitcoin, Ether or Ripple. Specified investments are types of investment which are specified in legislation. Firms that carry out particular types of regulated activity in relation to those investments must be authorised by the FCA.

To address these harms, the FCA has made rules banning the sale, marketing and distribution to all retail consumers of any derivatives (ie contract for difference – CFDs, options and futures) and ETNs that reference unregulated transferable cryptoassets by firms acting in, or from, the UK.

The FCA estimates that retail consumers will save around £53m from the ban on these products.

Sheldon Mills, interim Executive Director of Strategy & Competition at the FCA, said: 'This ban reflects how seriously we view the potential harm to retail consumers in these products. Consumer protection is paramount here.

'Significant price volatility, combined with the inherent difficulties of valuing cryptoassets reliably, places retail consumers at a high risk of suffering losses from trading crypto-derivatives. We have evidence of this happening on a significant scale. The ban provides an appropriate level of protection.'

The ban will come into effect on 6 January 2021. UK consumers should continue to be alert for crypto-derivative investment scams. As the sale of derivatives and ETNs that reference certain

types of cryptoassets to retail consumers is now banned, any firm offering these services to retail consumers is likely to be a scam.

For more information on these types of scams or to inform the FCA of a potential investment scam, please refer to the FCA's ScamSmart pages.