TIPS TO AVOID LOSING YOUR CRYPTO

The crypto market has suffered a major decline in the past few months, with some notable collapses.

The drama of the Terra Luna "de-pegging" resulted in many CeFi exchanges (that held Terra on their balance sheets and as a trading pair) freezing assets in an attempt to stop the bleed.

In July 2022, a big name CeFi exchange, known as Celsius, filed for Chapter 11 Bankruptcy in the US.

The immediate freezing of all these assets left many without access to their cryptocurrencies and the unregulated environment surrounding cryptocurrencies left these investors without many options to recover or seek relief from these shortcomings.

We are yet to see any landmark decision on misleading or deceptive conduct in relation to cryptocurrency exchanges and projects.

When regulation and enforcement does come, the hammer will likely hit hard on some crypto projects.

The crypto-sphere is the wild wild west, lacking regulation and safety for its participants. Swyftx, an Australian cryptocurrency exchange, has recently released one of the largest annual crypto surveys conducted in Australia. The insights show that over the next 12 months, 26% of Australians intend to purchase cryptocurrencies and around 61% of non-crypto users indicated they did not purchase cryptocurrencies due to the general lack of trust consuming the space.

With the above in mind and as a general guide only, the following are some basic, non-exhaustive steps you can take to protect yourself in the crypto space:

1. <u>Know the risks of keeping crypto on exchanges</u>

   Many participants are storing their cryptocurrencies on exchanges, under an ill-informed view that their crypto is 'safe' there. The best practice seems to be self-custody via cold wallets, which store your crypto in offline wallets, with access controlled by you. But nothing is 100% safe, nor risk free (don't forget your access codes). Even your personal data isn't 100% safe; in 2020 a leading wallet provider is reported to have accidentally exposed over 270,000 wallet buyers' personal details via an email link.

2. Read your Exchange's terms and conditions

The terms & conditions are always a good starting point before engaging with an exchange and should be read carefully before transferring any funds. It may not be what you think. For example, Celsius' terms and conditions provided that in some instances the funds (crypto) an individual transferred to the Celsius exchange would constitute a loan. Importantly, this arguably meant that any cryptocurrency transferred to Celsius by its customers were no longer the account holder's property; the crypto was considered a 'loan' to Celsius. This of course raises many legal questions, which are likely to play out in Celsius' bankruptcy in the USA.

3. 'DYOR' - Do your own research

'DYOR' is a term that is thrown around loosely in crypto communities. Proper research requires in depth analysis and critical review of that analysis to formulate a sound opinion. If the extent of your research is a simple google search, you are likely not off to a great start. There is currently no public filter for any content that is proposed on the internet, which means that anyone can post their opinion/reviews, without any reputable qualifications. Seek information from different, reputable sources and always approach it with a critical mind.

4. "If it's too good to be true it probably is"

Be wary of spruikers and get rich quick schemes. Some 'influencers' on cryptocurrency social media platforms/forums may not be qualified to give advice (and may even be paid to promote certain cryptocurrencies). These 'fin-fluencers' may have simply gotten lucky in the first wave up in 2017-18, and now feel qualified to give their opinion on markets and exchanges.

5. Be wary of scams

Due to the lack of regulation, scams and 'rug pulls' are becoming all too common.

The term 'rug pull' is used to describe cryptocurrency projects that use marketing techniques to appear legitimate, encouraging investors to be early adopters, investing at low prices, only to have the founder of the project disappear with the funds – the rug being pulled from underneath them. These projects will usually require you to purchase their crypto token from a liquidity provider such as 'Trader Joe's', requiring users to first buy a stable coin or Bitcoin and then purchase their token.

There are also more elaborate scams. We are aware of one scam that involves multiple deceptive stages. In the first stage, the scammers lure victims with promises of extravagant returns/gains. They request that you transfer cryptocurrency to them which they will then invest for you in other cryptos, for profit. When the time comes to withdraw/redeem those profits, they will then demand that you transfer additional funds to release these profits. The second stage applies once it is clear you have identified the scam. Should the victim refuse to send further funds, the scammers will then pretend to be a law firm who have, they say, "identified the scammers" and now request that you deposit funds with them in order to join in a class action against the scammers! A scam about a scam!

6. <u>If you are transferring funds to any entity</u>

   If you are transferring any funds, for any reason, make sure to verify the identity of the transferee. Keep in mind, if the internet is your source of information, this is also the same playground for the scammers, and is a fertile environment for misleading or deceptive content.

The call for regulation in Australia is gaining momentum. On 22 August 2022, the Federal Government acknowledged the regulatory gap for crypto-assets and expressed their first major commitment to a 'token-mapping' exercise to identify the types of cryptocurrencies that exist, with a view to creating a licencing and regulatory framework to better protect consumers.

More information can be found here https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/work-underway-crypto-asset-reforms.

Note: The above is a summary for general information purposes only. It is not intended to be comprehensive or constitute legal advice. You should seek formal legal or other professional advice in relation to your particular circumstances before relying on the content of this article.

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