Cryptocurrencies are digital tokens you can buy through an online exchange or through Initial Coin Offers (ICOs). Most online exchanges are unregulated, so it's important to understand the risks before you invest.

3 things you need to know about cryptocurrencies like Bitcoin

- They're high risk and highly volatile – the price can go up and down very quickly
- They're not regulated in New Zealand
- Cryptocurrencies, crypto-exchanges and the people that use them are often the targets of online fraud and scams

What are cryptocurrencies?

Cryptocurrencies use encryption technology to control the amount of currency issued and to record ownership and payments.

They are not legal tender (money that must be accepted as payment) and do not exist physically as notes and coins. There are over 1,300 different cryptocurrencies available on the internet including bitcoin, ethereum, ripple and litecoin.

When you buy cryptocurrency, it is held in a 'digital wallet'. It can be used to buy goods or services from anyone willing to accept it. Cryptocurrency exchanges enable you to buy and sell cryptocurrency and some allow you to convert it back into money – like New Zealand dollars at any time, if someone is willing to buy it.

Some cryptocurrencies are offered through ICOs. These are high risk investments offered by a business or individual raising money for an online venture, like the development of a digital platform. Funds are raised by issuing tokens.

People buy or use cryptocurrencies to:

- make a profit if the currency increases in value
- make payments directly without going through the banking system
• benefit from lower (usually zero) transaction fees compared with traditional banks and other online payment processes when purchasing goods and services
• invest in a business or individual raising money through an ICO.

Understand the risks

Many overseas cryptocurrency exchanges are unregulated and operate exclusively online – with no connection to New Zealand. This makes it hard to find out who is offering, exchanging, buying or selling it. It also makes it unlikely you'll recover your money if things do go wrong.

Using cryptocurrencies may make you a target for scammers or businesses selling high risk investments.

Things to look out for

1. Cryptocurrency value can change quickly

There are lots of cryptocurrencies. If one becomes popular its value is likely to increase, but the value of another may suddenly drop, sometimes permanently.

2. Your ‘coins’ may be stolen

All online transactions are at risk of cyber-crime. The cryptocurrency in your digital wallet can be stolen just like the money in your real wallet – with very little chance of it being returned. Cryptocurrency market places and exchanges can also be at risk of cyber-attack.

3. Cryptocurrencies aren’t widely accepted

Cryptocurrencies have less practical value than money which can be used to buy all goods and services.

How to reduce risk

Make sure any exchange you use is:

• based in New Zealand
• a member of a dispute resolution scheme
• holds your New Zealand dollars in a trust account.

This may give you some chance of recovering money lost.

Know what you’re getting into, including how the currency is stored and transferred, and how to get your money back

Understand how to access a payment record. You may need to prove you've made a payment – to get a refund for example.

Understand the common warning signs of a scam and the steps you can take to protect yourself.

Where to get more information

For more information about the risks of investing in cryptocurrencies have a look at:
For information about the dangers of using cryptocurrencies in the futures markets, see these warnings from other overseas regulators:

- UK Financial Conduct Authority
- Hong Kong Securities and Futures Commission

Learn more about:

- Bonds
- Binary options
- Cash investments
- Capital notes
- Crowdfunding
- Foreign exchange trading
- Managed funds
- Peer-to-peer lending
- Property investment
- Property syndicates
- Shares
- Software packages and seminars.

Your role

- Auditors
- Authorised financial advisers
- Brokers & custodians
- Crowdfunding platforms
- Directors & officers
- Derivatives issuers
- Equity or debt issuers
- Financial market infrastructures
- Fund managers
- Independent trustees
- Market operators
- Peer-to-peer lending providers
- QFES & QFE advisers
- Registered financial advisers
- Supervisors