Understanding Your Rights and the Risks with Trading Crypto in the UK

It is crucial to understand your rights and the risks involved with trading crypto in the United Kingdom.

This educational overview aims to educate you on the matters that the Financial Conduct Authority ("FCA") expects you to understand before trading crypto.

With this, you will be better equipped to navigate the sometimes volatile and high-risk world of crypto markets, making informed choices along the way.

The Role of Crypto.com

- Crypto.com allows you to buy, sell, transfer, store and stake crypto.
- While you maintain ownership of your crypto, Crypto.com holds them on your behalf in its custody environment.
- This arrangement offers security benefits but also entails counterparty risk since your assets are entrusted to a third party (ie. Crypto.com).

High-Risk Nature of Crypto and Investor Responsibility

- Crypto is an inherently high-risk investment.
- Crypto.com and any regulatory bodies like the FCA, cannot guarantee:
    - (i) the performance or legitimacy of any cryptoasset. You should conduct your own due diligence to comprehend the nature of any cryptoasset you intend to invest in and the associated risks; or
    - (ii) the safety or profitability of your investments. You should recognise that you have the sole responsibility for your investment decisions and Crypto.com does not dictate investment choices.

Navigating Market Volatility: Strategic Investment Decisions

- The crypto market is known for its volatility, which can lead to substantial gains but also expose you, as an investor, to significant losses. You should be prepared for rapid price movements within short periods of time and exercise caution when trading in such a dynamic environment.
- You should be prepared for the potential of the delisting of certain cryptoassets which may happen due to regulatory shifts, protocol concerns, or decreased demand.
- Given the risk of losing all invested money in a cryptoasset, it is advisable for you to consider the following strategies:
    - (i) **Limit Allocation**: Avoid allocating more than 10% of your net assets to crypto.
    - (ii) **Diversification**: Enhance portfolio resilience by holding multiple cryptoassets to help mitigate risks.

Risk of Using Centralised Exchanges

- Using centralised exchanges comes with its own set of risks, including temporary downtime and the potential loss of assets in case of theft or fraud.
- That is why it is important to choose reputable exchanges and also consider alternative storage options such as hardware wallets for added security.

Regulatory Risks with Crypto Investments

- While Crypto.com is registered with the FCA for its cryptoasset business, you should be aware of regulatory implications and limitations in the crypto market.
- Unlike exchange-traded securities, crypto operates in a different regulatory environment and does not enjoy the same level of investor protection or regulatory oversight.
- Crypto held with Crypto.com is not covered by any investor protection schemes. For instance, the Financial Services Compensation Scheme (FSCS) does not protect against investment losses, and the Financial Ombudsman Service (FOS) does not mediate disputes involving crypto.
- In the event of Crypto.com declaring bankruptcy, there is a risk that you may not recover your investment capital held with Crypto.com.

Understanding Key Terms in Crypto Trading

Before diving into crypto trading, it is essential to familiarise yourself with some key terms:

- **Staking**
  - Staking involves participating in network activities and earning rewards.
  - However, it comes with risks such as volatility, protocol vulnerabilities, and uncertain rewards:
    - (i) **Volatility risk:** During the staking period, crypto may experience price volatility, leading to fluctuations in value.
    - (ii) **Blockchain protocol risk:** Updates to the consensus mechanism can introduce vulnerabilities and unforeseen outcomes, posing risks to staked assets.
    - (iii) **Rewards risk:** Staking rewards are determined by the protocol and may not be guaranteed or stable over time, presenting uncertainty.

- **Proof of Work ("PoW") and Proof of Stake ("PoS")**
  - PoW and PoS are consensus mechanisms used in blockchain networks.
  - PoW requires miners to validate transactions by solving complex mathematical puzzles, while PoS involves participants staking their assets to validate transactions and secure the network.

- **"Stablecoins"**
  - So-called "stablecoins" are cryptoassets whose value is pegged to the value of traditional fiat currencies, such as the US Dollar.
  - Whilst they aim to maintain a stable value, their prices can still fluctuate due to market demand or changes in the value of underlying assets.

- **Asset- or commodity-backed coins**

- Similar to stablecoins, these types of coins are cryptoassets whose value is pegged to the value of underlying assets such as gold.
- As with stablecoins, whilst they aim to maintain a stable value, their prices can still fluctuate due to market demand or changes in the value of underlying assets.

- **Meme coins**
  - Meme coins, such as SHIB and DOGE, inspired by internet culture and trends, are known for their rapid price movements.
  - They often gain popularity through social media. However, investing in meme coins carries a high risk due to their speculative nature and lack of fundamental value, which could result in significant losses for you.