ECOFIN

The question of fraud and regulation of cryptocurrencies

What is cryptocurrency?

Cryptocurrencies, often referred to as virtual currencies, e-monies or tokens, are quite different from typical tangible currencies such as dollars or euros.

Instead of being issued and backed by a government or central bank, cryptocurrencies are digital assets secured by cryptography that can be used as a medium of exchange. Their validity is typically provided by a blockchain system with an open, distributed ledger recording transactions.

While different forms of cryptocurrencies have been around for years, they became a cultural phenomenon in 2017 when the price of Bitcoin, one of the more established cryptocurrencies, skyrocketed to nearly $20,000, representing an annual gain of over 2000%. While 2018 saw the “Great Crypto Crash,” cryptocurrency remains very popular, with Bitcoin accompanied by other significant cryptocurrencies such as Etherium, Ripple’s XRP, Binance, Tether, and countless others.

Main types of cryptocurrency fraud.

There are numerous risks associated with the use of cryptocurrencies; some are specific to e-money while others are common to both crypto and traditional currencies. These are some of the scams used by fraudsters:

1.Financial Crimes
2.Scam involving initial coin offerings
3.Pump and Dump Schemes
4.Market Manipulation
5.Ponzi Schemes
6.Traditional Theft
7.Broker/Dealer Fraud
8. Money Laundry

9.Unscrupulous Promotors

Existing actions and policies.

The Security and Exchange Commission (SEC), Commodity Future Trading Commision (CFTC), and the Internal Revenue Service (IRS) all assert regulatory control over cryptocurrency under certain circumstances. For the SEC, a given cryptocurrency must qualify as a security, or the "investment of money in a common enterprise with a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others." The SEC developed its application of this test to cryptocurrency in its now famous report on the Decentralized Autonomous Organization (DAO) a German crypto ecosystem.

The CFTC also has authority to regulate crypto as a commodity in accordance with the Commodity Exchange Act. The CFTC has recently stated that crypto enforcement is a top priority because of its high risks for investor fraud.

The IRS has also taken the position that cryptocurrency investments are assets that should be treated like any other for tax purposes, permitting it to tax returns on crypto investments. And through its Criminal Investigations Division, the IRS can pursue money-laundering crimes committed with cryptocurrency. Enforcement efforts by the SEC, CFTC, and IRS can also extend internationally to schemes that have violated U.S. laws.

As cryptocurrencies continue to grow in market cap and influence, whistleblowers will be essential in helping the government catch wrongdoers and prevent fraud. Whistleblowers can also take advantage of the various whistleblower reward programs offered by the SEC, CFTC, and IRS.

Conclusion

As a recent phenomenon and still limited in its circulation, cryptocurrency has wildly developed in absence of regulations which leaves the users vulnerable to fraud. The lack of tangible assets means that the consumer has very little or no guarantee over whether their investment is safe. The electronic nature of this currency makes them easy targets of hackers that are virtually impossible to find and locate.

The creation and development of e-money has been largely driven by private investment with the focus on personal gain rather than public welfare interest.

Each currency has individual rates of growth, showing a high level of instability and with no link to economic policies, very hard to predict the level of increase of decrease in value.