

Watchdog warns of 'high risk' digital currency offers

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A European financial markets watchdog warned Monday of the risks to investors of putting money in Initial Coin Offerings (ICOs), and to firms of stepping over the line of legality.

The Paris-based European Securities and Markets Authority (ESMA), an independent EU body, said it had observed "rapid growth" in ICOs and "is concerned that investors may be unaware of the high risks that they are taking when investing in ICOs".

Firms issuing ICOs, meanwhile, "may conduct their activities without complying with relevant applicable EU legislation", the body said.

In offerings of ICOs—a term borrowed from Initial Public Offerings (IPOs) on stock markets—a group of people creates its own [virtual currency](#) and raises funds by selling it to investors.

These coins are then traded for traditional currencies, like the euro or the dollar, or other virtual currencies like bitcoin or ether.

The price of a new coin, also known as a "token", is "typically extremely volatile", the ESMA noted, and warned investors may not be able to redeem them "for a prolonged period".

If such operations fall outside of EU rules and regulations, investors also cannot benefit from legal protection if the investment goes sour, it said.

Fraud and money laundering were also a risk possibly involved in ICOs.

The warning comes as bitcoin, the best-known virtual [currency](#), is experiencing a volatile trajectory.

Early Monday, bitcoin fell to \$5,605, a drop of nearly 30 percent from its November 8 record high. By late morning, it had recovered somewhat to \$6,425.

Analysts said traditional bitcoin is under pressure from rival "bitcoin cash", which was created this summer by a breakaway group of [bitcoin](#) users.

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