



State of North Carolina

Office of the Commissioner of Banks

Pat McCrory
Governor

Ray Grace
Commissioner of Banks

CONSUMER ALERT: VIRTUAL CURRENCIES

The N.C. Office of the Commissioner of Banks (NCCOB) is issuing this Consumer Alert based on the increased interest in virtual currency in North Carolina. We caution everyone using virtual currency to educate themselves before buying or investing in any virtual currency.

What is Virtual Currency?

Virtual currency is an electronic form of monetary value that does not have all the attributes of real currency. There are many examples of virtual currency, such as Bitcoin and Litecoin, and other forms of virtual currency continue to appear in the market.

Most virtual currencies are based on computer cryptography and derive their value solely from the market's perception of their value. These currencies are:

- **not** backed by any physical commodity, such as gold or silver;
- **not** backed by the United States or any other national government;
- **not** legal tender for debts; and
- **not** insured by the FDIC or any government agency.

Virtual currencies are "created" by software developers, and each virtual currency is programmed differently. Although the software behind most virtual currencies is available on the internet, it can be difficult to understand and evaluate how the software works.

What Should You Consider Before Buying Virtual Currency?

Before buying or investing in a virtual currency, consider some of the following:

- **Consumer Protections**. NCCOB is working diligently to license companies who promise to exchange real world currency for virtual currencies. Once licensed, these companies will be required to provide certain protections available to consumers for traditional money transmission. Nonetheless, unlike traditional bank accounts, virtual currency "accounts" are not FDIC-insured. Likewise, unlike credit card transactions, most virtual currency

transactions are not reversible. **In other words, you should not purchase virtual currency unless you can afford to lose those funds.**

- **Price Volatility.** Virtual currencies are not backed by any central bank or government authority and are not guaranteed by deposit insurance. These currencies have the potential for a complete loss in value. Unlike traditional currencies, price changes in virtual currency can happen quickly and dramatically, with no mitigation.
- **Possibility of Theft.** Like cash, there is always the potential for consumers to lose virtual currency. Unlike cash, however, this loss can occur because of a computer failure, malicious software attack, or simple lack of security. In the Bitcoin system, for example, if you lose the private key associated with your public Bitcoin address, whether because your computer hard drive crashes or your Bitcoin wallet is hacked, there is no way to reverse that loss.
- **Limited Access.** Some virtual currency users have been unable to access their legitimate virtual currency account because of a prevalence of criminal activity in virtual currency use. For example, in 2013, the FBI closed Silk Road, an online marketplace for Bitcoin users, and temporarily made all Bitcoin balances on Silk Road unavailable for any transactions.
- **Investor Protection.** Both the U.S. Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) have issued alerts related to virtual currency investments. To read the SEC's warning on virtual currency Ponzi schemes, click [here](#). To learn more about FINRA's warning on Bitcoin investments, click [here](#).
- **Tax Issues.** In 2014, the IRS announced that virtual currency transactions are taxed similarly to property transactions. For more information, click [here](#).
- **Getting More Details.** Consumers considering the use of virtual currency should research any company offering services related to the currency. This includes ATMs, trading platforms, sellers, and wallet providers. There are a variety of sources that can help your search:
 - Check the North Carolina Office of the Commissioner of Bank's website for authorized money transmitters in North Carolina by clicking [here](#).
 - Check the Financial Crimes Enforcement Network (FinCEN) for registered money service businesses by clicking [here](#).
 - Check the NMLS Consumer Access website to determine if an entity is licensed in another state by clicking [here](#).

If you have additional questions, please contact NCCOB at 919-733-3016 or by visiting our website at <http://www.nccob.gov>.