

PRESS RELEASE

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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Issued By Payments and Settlements Department & Department of Foreign Exchange

Date 09 April 2021

Public awareness on Risks in investing in Virtual Currencies in Sri Lanka

Considering the recent inquiries on virtual currency usage in the international and domestic markets, the Central Bank of Sri Lanka (CBSL) wishes to inform the public of the risks associated with investing in Virtual Currencies.

“Virtual Currencies (VCs)” are digital tokens created by private entities that can be obtained online through mining, Initial Coin Offerings (ICOs) or through Virtual Currency Exchanges. VCs are also commonly referred to as cryptocurrencies. Popular VCs include Bitcoin, Ethereum, Litecoin. While VCs have their own value denominations such as bitcoins for Bitcoin and ethers for Ethereum, they are usually valued in VC Exchanges in currencies issued by Central Banks, e.g., US dollar (USD), Japanese Yen, etc. However, it is important to note that **VCs are not issued by Central Banks and are also not generally backed by underlying assets. Therefore, their values are determined by speculation of the public on VC Exchanges.**

There are no regulatory safeguards relating to the usage, investment or dealing in VCs in Sri Lanka. Therefore, investing or using VCs in Sri Lanka poses significant risks such as;

- a) **Users/investors will have no regulatory or specific legal recourse in the event of any user or transaction related issues or disputes.**
- b) **High volatility of the value** of the VCs, as it is dependent on speculation, exposing the investment of VCs to a risk of making large losses.
- c) **High Likelihood of VCs being associated in financing terrorist activities** and used by criminals to launder criminal proceeds.
- d) **Violation of Foreign Exchange Regulations.** As VCs are traded as assets in Exchanges, purchasing VCs from abroad would lead to a violation of Foreign Exchange Regulations, as VCs are not identified as a permitted investment category in terms of the Foreign Exchange Act No. 12 of 2017 (FEA). Electronic Fund Transfer Cards (EFTCs) such as debit cards and credit cards are also not permitted to be used for payments in foreign currency related to virtual currency transactions, in terms of the Foreign Exchange Regulations in Sri Lanka.

The public is therefore warned of the significant **financial, operational, legal, customer protection and security related risks** posed by investments in VCs to the users as well as to the economy. The public is also informed that CBSL has not given any license or authorization to any entity or company to operate schemes involving VCs, including cryptocurrencies, and has not authorized any ICOs, mining operations or Virtual Currency Exchanges.