



# BLOCKCHAIN

## ASSOCIATION OF UGANDA

### INVESTOR ALERT

## Ponzi Schemes Using CryptoCurrencies

*The Blockchain Association of Uganda is issuing this investor alert to warn the general public about fraudulent investment schemes that may involve bitcoin and other cryptocurrencies.*

### Ponzi Schemes Generally

A **Ponzi** scheme is an investment scam that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, rather than engaging in any legitimate investment activity, the fraudulent actors focus on attracting new money to make promised payments to earlier investors as well as to divert some of these "invested" funds for personal use. Ponzi schemes are prosecutable under the laws of Uganda.

As with many frauds, Ponzi scheme organizers often use the latest innovation, technology, product or growth industry to entice investors and give their scheme the promise of high returns. Potential investors are often less skeptical of an investment opportunity when assessing something novel, new or "cutting-edge."

### Look Out for Potential Scams Using CryptoCurrencies

Virtual currencies, such as Bitcoin, have recently become popular and are intended to serve as a type of money. These cryptocurrencies are regulated in different markets around the world, where they may be traded on online exchanges for conventional currencies, used to purchase goods or services, usually online.

The Blockchain Association of Uganda is concerned that the rising use of cryptocurrencies has attracted fraudsters to lure investors into Ponzi and other schemes in which these currencies are used to facilitate fraudulent, or simply fabricated, investments or transactions. The fraud may also involve an unregistered offering or trading platform. These schemes often promise high returns for joining the business at the beginning of a growing Internet phenomenon.

Fraudsters may also be attracted to using cryptocurrencies to perpetrate their frauds because transactions in cryptocurrencies supposedly have greater privacy benefits and less regulatory oversight than transactions in conventional currencies. Any investment in securities in Uganda remains subject to the guidelines of the Capital Markets Authority in Uganda, and such investments are made in fiat currencies, like the Uganda shilling, as cryptocurrencies are not yet regulated in Uganda. The Blockchain Association has received interest from various legitimate cryptocurrency businesses to operate in Uganda, and has met with the Capital Markets Authority, the Bank of Uganda and Ministry of Finance to discuss appropriate policy frameworks to support these companies. The Capital Markets Authority has since developed draft cryptoasset regulations for Uganda, and there is an ongoing consultative process to get input from the various other stakeholders.

## Common Red Flags of Fraud

Many Ponzi schemes share common characteristics. Following are some red flags:

- **High investment returns with little or no risk.**  
Every investment carries some degree of risk, and investments yielding higher returns typically involve more risk. "Guaranteed" investment returns or promises of high returns for little risk should be viewed skeptically.
- **Overly consistent returns.**  
Investments tend to go up and down over time, especially those seeking high returns. Be suspect of an investment that generates consistent returns regardless of overall market conditions.
- **Unregistered investments.**  
Ponzi schemes typically involve investments that have not been registered with the CMA or with any of the licensed brokerage firms in Uganda.
- **Unlicensed sellers.**  
The Capital Markets Authority requires certain investment professionals and their firms to be licensed or registered. Many Ponzi schemes involve unlicensed individuals or unregistered firms.
- **Secretive and/or complex strategies and fee structures.**  
It is a good rule of thumb to avoid investments you don't understand or for which you can't get complete information.
- **No minimum investor qualifications.**  
Most legitimate private investment opportunities require you to be an *accredited investor*. You should be highly skeptical of investment opportunities that do not ask about your salary or net worth.
- **Issues with paperwork.**  
Be skeptical of excuses regarding why you can't review information about the investment in writing. Always read and carefully consider an investment's prospectus or disclosure statement before investing. Be on the lookout for errors in account statements which may be a sign of fraudulent activity.

- **Difficulty receiving payments.**  
Be suspicious if you don't receive a payment or have difficulty cashing out your investment. Ponzi scheme organizers sometimes encourage participants to "roll over" promised payments by offering higher investment returns.
- **It comes through someone with a shared affinity.**  
Fraudsters often exploit the trust derived from being members of a group that shares an affinity, such as a national, ethnic or religious affiliation. Sometimes, respected leaders or prominent members may be enlisted, knowingly or unknowingly, to spread the word about the "investment."

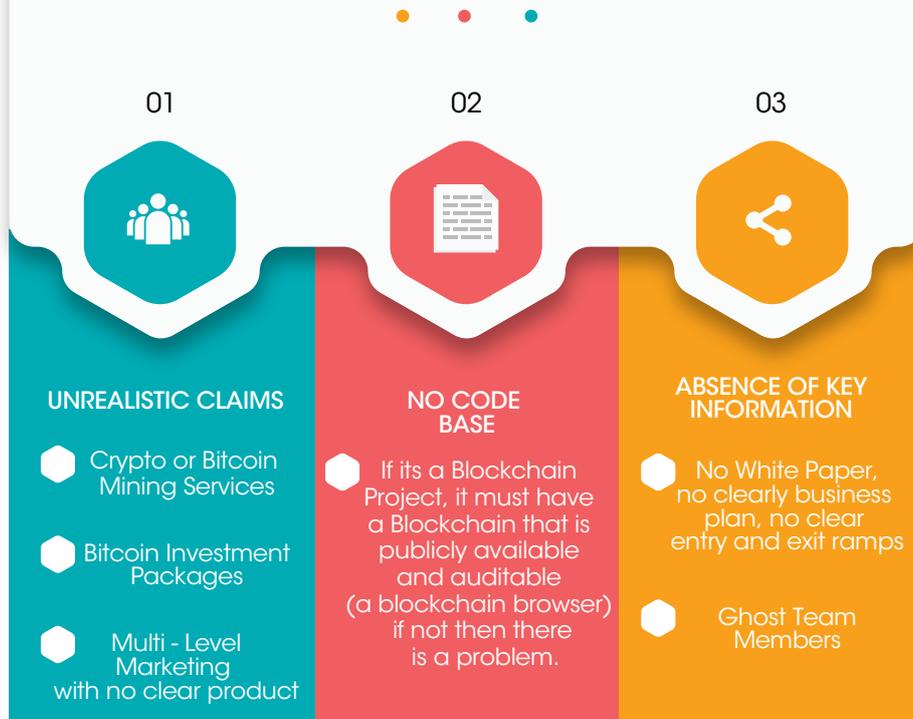
The Blockchain Association of Uganda has provided this information as a service to the general public. It is neither financial advice, nor a statement of the Government of Uganda, but of industry experts that form the Association.

The Blockchain Association is an umbrella body of technology, legal, academic and industry experts working with blockchain technology and its applications including cryptocurrencies, who are committed to setting correct industry standards, to ensure that Uganda is not left behind, but can take a lead role in this new global technology wave.

If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

In case of any further queries on this statement you can send an email to us on [info@blockchain.or.ug](mailto:info@blockchain.or.ug)

## CHARACTERISTICS OF CRYPTO SCAMS



### The Ponzi Pyramid

Ponzi schemes, as they grow, require an unsustainably large pool of investors to uphold the scam. In this simplified example, the schemer starts by taking \$1,000 from investors, promising to double it within a month. But instead of investing their money, he pays them with funds garnered from other investors roped in as the scheme progresses.

