

FSCA RELEASES FINDINGS OF CRYPTO ASSETS MARKET STUDY

The Financial Sector Conduct Authority (FSCA) has published the findings of a Crypto Market Study, aimed at assisting the FSCA to better understand crypto asset related activities performed by Crypto Asset Financial Service Providers (Crypto Asset FSPs)¹ in South Africa.

After declaring crypto assets as a financial product during October 2022, the FSCA remains of the view that crypto asset related activities pose significant risks to financial customers. While there is a legal framework in place, the regulation of crypto asset related financial services is a new development, and the FSCA is still unpacking the specific risks inherent in the South African environment. To regulate effectively, the Authority needs to develop a deeper understanding of these risks and market dynamics, to refine its approach to licensing and supervising crypto asset activities with a view to appropriately mitigate investor protection risks and ensure better financial customer outcomes.

To better understand the crypto asset-related activities performed by Crypto Asset FSPs in South Africa, the FSCA, in accordance with paragraph 3(2) of FSCA FAIS Notice 90 of 2022, requested Crypto Asset FSPs to furnish the authority with information relating to their business and business practices.

The information gathered is intended to support the work of the Authority, particularly in relation to the development of licensing, supervision, and regulatory frameworks for Crypto Asset FSPs, by highlighting consumer exposure to crypto assets; and (in line with risk-based supervision) identifying risks that may negatively impact consumer well-being.

¹ Means a person that is required to be licensed under section 8 of the Act to render a financial service in relation to crypto assets and currently renders financial services under the exemption provided in terms of FSCA FAIS Notice 90 of 2022.

The information gathered suggests that the majority of Crypto Asset FSPs in South Africa provide financial services by making use of unbacked crypto assets, followed by stablecoins and security tokens. Most unbacked crypto assets are used for speculative purposes rather than as a medium of exchange i.e. the buying and selling of goods and services. Further, the observed crypto asset-related business models are diverse. However, the business models generally mirror traditional financial activities such as operating an exchange or providing advice. These activities mean that consumers rely on centralised entities when engaging with the crypto asset ecosystem, which is contrary to the disintermediation function that crypto assets were designed for, and that most consumers still think exists.

Other findings include:

- Almost all Crypto Asset FSPs claim to disclose risks relating to crypto asset activities to their customers and the public; this claim will need to be monitored closely by the regulator for effectiveness.
- Cape Town leads the way in head office location. The results bear testimony to the fact that Cape Town is considered the largest technology hub in Africa.
- The majority of Crypto Asset FSPs earn their revenue from trading fees and most of the remuneration models identified mirror traditional financial revenue models.

Today, 30 November 2023, marks the last day for Crypto Asset FSPs to be licensed and brought into the regulatory net. So far, the FSCA has received 128 applications.

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