



14 November 2022

## NOTICE

### **Investing: Understanding Product Risk and Your Ability to Absorb Losses**

Digital asset technology is growing in adoption amongst traditional and digitally native businesses. Additionally, the sector also has significant retail participation.

The field of digital assets is wide-ranging, from Non-Fungible Tokens (NFTs)/art ownership rights and supply chain/climate tracking to investment and payment products, as examples. The level of risk associated will vary according to the use case and product design.

It is important for the public to understand the product and its risk before entering into any agreement. The damaging losses arising from institutional failures within the digital asset sector in both May 2022 and occurring now demonstrate the significant risks arising from certain digital asset products. Generally, for any financial product, there is normally a positive correlation between potential returns and risk. The potential for higher returns tends to be associated with higher risk. The Authority wishes to remind the public to deal prudently and understand the risks associated with any financial instrument. Before a customer enters into an agreement, the customer should have regard for their ability to absorb potential losses arising from the crystallization of risk.

It is advisable that the public seek regulated financial institutions; however, while regulation significantly reduces the chances of financial institution failure, such does not entirely eliminate the possibility of failure, as has been witnessed across all financial sectors and in all jurisdictions. Accordingly, it cannot be overemphasised that it is critical for a customer to understand the product and consider both the product's associated risk and the customer's ability to absorb losses.

While it is not a substitution for a customer's own due diligence, Bermuda businesses licensed under the Digital Asset Business Act 2018 are also required to disclose material risks to customers. Customers should read all product information and contractual agreements and ask the digital asset business questions when either in doubt or for confirmation of understanding.