

What is cryptocurrency?

Cryptocurrency, or 'crypto', is a type of digital currency that allows people to make payments to each other online.

There are many different cryptocurrencies that are traded on cryptocurrency exchanges, and they can sometimes be used to purchase goods and services directly with sellers that choose to accept it.

Bitcoin and Ethereum are the main cryptocurrencies, but there are more than 19,000 different cryptocurrencies in circulation.

The value of a cryptocurrency is only what people are willing to pay for them in the market; they have no value as legislated legal tender like a \$10 note or \$2 coin.

How does it work?

Cryptocurrency is traded on an electronic network without going through a bank or central government. A crypto coin is actually a string of data written on a public ledger, known as a blockchain.

What is a blockchain?

Blockchain is like an open bank statement, that shows all cryptocurrency transactions, making it possible to verify that the transactions are legitimate. Like crypto, it is a digital application.

Why is it called blockchain?

Transactions (this is the term for buying and selling) are recorded in 'blocks' that are then linked together on a 'chain' of previous cryptocurrency transactions.

Each new transaction as it happens is logged and the blockchain is updated simultaneously with the new information, keeping the records identical and accurate. It works just like a bank account statement or the statement on your credit or debit card.

Everyone who uses blockchain must have a secure key code to use to access their blockchain account. It's like a personal PIN number and it's very important to keep this number safe.

Where do I buy crypto?

Cryptocurrencies can be purchased through crypto exchanges.

The main way for people to buy crypto is directly through a registered Digital Currency Exchange (DCE), such as Coinbase, Kraken or Gemini.

They offer the ability to trade some of the most popular cryptocurrencies, including Bitcoin, Ethereum and Dogecoin.

A number of local or Australian crypto exchanges have emerged in recent years (including Coinstash, BTCMarkets, Coinspot, Swyftx, Cointree, etc).

How do I buy crypto?

- Decide how much you are willing to spend in crypto—you can buy as little as a few hundred dollars.
- Find an exchange that suits your needs.
- Register for your account on your chosen exchange.
- Complete the mandatory 'Know Your Customer' or KYC requirements.
- Deposit funds into your account.
- Start trading cryptocurrencies.

It's important to find a reputable exchange. If you would like a more personalised service, you could consider contacting a broker. Make sure they have a clearly established and public track record of activity. All regulated Australian businesses will ask to confirm your identity—either when you sign up, or before you withdrawal.

Risks you should know about

There are many features of cryptocurrency that make holding it risky:

- Because it is relatively new, it is likely that some crypto currencies will fail in time, leaving the holder with tokens of no value.
- It is a challenge for governments to regulate cryptocurrencies to protect consumers. As such, there is no recourse (refund) to consumers in the event of crypto currencies being stolen from digital wallets or any other loss.
- The value of crypto currencies change over time depending on market forces, and it is impossible to predict their future.

Finance facts: Cryptocurrency

What are non-fungible tokens?

Non-fungible tokens (NFTs) are another type of digital token. Each one is unique, they can include any creative idea such as one-of-a-kind art or songs, or real estate. Tokenising these assets makes trading easier and reduces the likelihood of fraud.

The most expensive NFT ever sold was for \$91.8 million on a dynamic NFT that sold from an unknown person(s) to over 28k investors in 2021. The dynamic NFT called The Merge, increases in value over time as the units transform into coins.

Rules for investing in cryptocurrencies

- Never invest in something you don't understand.
- Be aware that if you invest in something that is risky, you could lose your money.
- Always check your holdings on a regular basis.

Fun facts about Bitcoin

- Bitcoin was created in 2008.
- The real identity of who invented Bitcoin has never been revealed, but the whitepaper written in 2008 was by a person or group known as Satoshi Nakamoto.
- Bitcoin reached an all-time high of over USD\$68,000 in November 2021.
- There will only ever be 21 million Bitcoins.
- New Bitcoins are created by 'mining', which is where computers on an interconnected network complete algorithms to verify and record new transactions on the blockchain.

Digital currency regulations and consumer protection

The Australian Government, through APRA, has been working on cryptocurrency policy since 2014, initially looking at tax treatment and anti-money laundering regulations.

With regard to consumer protections, it will need to be determined on a case-by-case basis if the cryptocurrency is a 'financial product'. There are certain activities around the marketing of cryptocurrencies that will fall under consumer protection laws, even if the cryptocurrency is not deemed to be a financial product.

More guidance from government on cryptocurrency is expected as they continue to consult and formulate new regulations.

Glossary

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| APRA | The Australian Prudential Regulation Authority is an independent statutory authority that supervises institutions across banking, insurance and superannuation, and promotes financial system stability. |
| Broker | A broker is a firm or company that provides trading services. Always use a broker that is licensed. A broker can either be a human being who is processing the trade themselves or a computer program that is only monitored by a human. |
| Digital currency | Digital currency is any means of payment that exists in a purely electronic form, it is not physically tangible like a dollar bill or a coin. |
| Non-fungible token (NFT) | Cryptographic assets on a blockchain with unique identification codes and metadata that distinguish them from each other. |

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About Ecstra

Ecstra Foundation is an independent charitable foundation committed to building the financial wellbeing of Australians within a fair financial system.



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