Report on the use of cryptoassets in Turkey

In Turkey the volatility of the domestic Lira coupled with the distrust to the government's economic policies, have caused many consumers to embrace cryptocurrencies. A recent pilot study by researchers at Nottingham Law School, involving elite interviews with Turkish industry professionals, has revealed some interesting aspects of this trend.

Although cryptocurrencies are perceived by many to be a risky investment, interestingly, in Turkey the preference has been to invest in stablecoins as opposed to more volatile altcoins, such as Bitcoin. In particular, the tendency amongst Turkish consumers is to opt for cryptocurrencies such as tether which have monetary backing and whose value is pegged to the US dollar. This approach towards more stable, less volatile cryptocoins is perhaps explained by reference to the cultural habits of Turkish consumers, who are no strangers to financial turmoil and have traditionally kept their wealth in assets with relatively stable values, either in gold or US dollars.

Although the Turkish approach towards cryptocurrencies appears to be guiding consumers to safer and less volatile options, this is arguably, not due to a clear governmental policy, but rather largely influenced by cultural trends as well as advertising campaigns and social media.

In the absence of specific crypto regulation, it suggests a viable policy of trusting consumers to reach the right decisions once they have been provided with the right information about different types of cryptocurrency, especially considering that their personal wealth is at stake.

It is therefore of significant importance to have consumer safeguards in place which ensure that consumers have access to the right information, to limit the potential for unwitting investments in excessively volatile assets. Such an approach is particularly important since, in the event that investments go wrong, it is likely to be difficult for victims to gain legal redress. In Turkey, those investing in cryptocurrencies are regarded as investors as opposed to consumers. The implication of this is that in the event of a dispute, 'investors' are not subject to consumer related legislation, but rather subject to commercial laws. There are currently two codes protecting investors' rights in Turkey, namely the Code of Obligations and the Commercial Code. Therefore, if a dispute arises between the parties (i.e. crypto service providers and digital asset investors), the competent court would be the commercial court at first instance, not the consumer-protection court. This is particularly important, as cases that reach the consumer-protection courts are dealt with relatively swiftly, whereas disputes before the commercial courts take 5-6 years on average to be resolved, hence, having a very detrimental impact upon 'investors'.

Although there is currently no specific regulation of cryptocurrencies in Turkey, it is widely recognised that state-intervention is necessary, in order to protect investors from crypto-fraud. However, as regulation of cryptocurrencies is not an easy task, it is suggested that a layered-approach, which distinguishes between different categories of cryptocurrencies is preferable. Such an approach would acknowledge the impracticability of regulating Bitcoin and similar volatile altcoin investments, whereas the regulatory efforts can focus on stablecoins. Stablecoins resemble more traditional financial investments and this has proved attractive to Turkish investors. Their claims of stablecoins to offer greater stability therefore need to be backed with substance and with safeguards similar to those of traditional financial investments.

A regulatory approach, with particular regard to stablecoins this could be a preferable form of regulating cryptoassets, as emphasis would be placed on educating consumers. State efforts could focus on the control of information and advertising, as opposed to a ban, or other regulatory approach to volatile altcoins, which would be practicably difficult and could prove futile bearing in mind their supranational nature. Until well drafted and implemented regulation is in place, the government should take all necessary measures to protect its nationals from survivorship bias risk: the tendency to focus only on successful examples. Although some Turkish people invest their assets on stable coins, others are still hoping to become rich by investing in certain volatile digital assets. What they read or watch on social media will manipulate their investment decision making as most of the available sources on social media are only about the story of successful investors/consumers who made fortune by investing on certain altcoins, but not the unsuccessful ones.

Dr Hakan Sahin, Prof Rebecca Parry and Dr Alex Kastrinou.

March 2022