



Bitcoin firm goes dark, and funds are missing

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February 10, 2015

Bitcoin is again drawing scrutiny following an apparent theft of \$387 million in client funds from a Hong Kong exchange that trades in the virtual currency.

Hong Kong police are reportedly investigating the disappearance of the money at MyCoin, which allowed users to buy and sell Bitcoin. The company appears to have suspended its service. Calls to MyCoin could not be connected, while calls to its customer service line were not answered, according to Reuters.

In wake of the incident, Hong Kong's central bank cautioned consumers against investing in virtual currencies.

"Authorities are fumbling around trying to regulate these things," said Steve H. Hanke, a professor of applied economics at The Johns Hopkins University and a senior fellow at the Cato Institute. "Hong Kong has a very good, regulated banking system. It does not want the authorities in Beijing coming down on them hard because something happened in some Bitcoin exchange."

But the latest cloud over Bitcoin, and the largest since the 2014 bankruptcy of Tokyo-based Mt. Gox exchange, has less to do with the pros and cons of using or investing in virtual currencies and more to do with an old-fashioned scam.

"Reports say this wasn't a traditional exchange that was hacked, like Mt. Gox, but instead a business that provided some sort of contract that promised you a return, and some are surmising MyCoin was really running a Ponzi scheme based on Bitcoins," said Reuben Grinberg, an attorney at Davis Polk & Wardwell who started writing about the digital currency in law school.

"Oftentimes with new technology, where regulators haven't clamped down yet, scammers or people with bad intentions come in and start harming investors," said Grinberg, who cited as example the U.S. Securities and Exchange Commission action last year against Trendon Shavers and Bitcoin Savings and Trust, or BSCST, the online entity he created.

Shavers, operating under the online name "Pirateat40," solicited investors in online chat rooms and on the Bitcoin Forum, an online forum dedicated to the digital currency. He promised up to 7 percent returns weekly based on his alleged trading of Bitcoin against the U.S. dollar, while in

reality using new Bitcoins from BTCST investors to pay the supposed returns. Shavers and BTCST were fined more than \$40 million for bilking investors of more than 700,000 Bitcoins from early 2011 to mid-2012.

BitCoin and the future of money

"What this says is, no matter how slick the website is or what businesses say about themselves, consumers should be wary," Grinberg said. "In the history of Bitcoin businesses, there's a large number that turned out to be not what they said."

Beyond the danger of fraud, Bitcoin prices are highly volatile, Grinberg said. Other risks stem from buying and storing the digital currency on a personal computer. "If your computer is hacked, Bitcoins could be stolen in the same way as cash could be stolen from under your mattress. New encryption approaches help, but are not foolproof. Relying on a business to hold your Bitcoins is not risk-free, either, as the business could be fraudulent or could be hacked."

"This is one of the most risky asset classes you can be involved in," the attorney said.

Despite the heightened regulatory attention on Bitcoin, a growing number of businesses are accepting and trading the currency, while investors are also piling in.

"A lot of venture capitalists are getting involved, who think there are a lot of great benefits to virtual currencies even if you have regulation," said Grinberg, citing one exchange, San Francisco-based Coinbase, which uses its regulation by a half a dozen or so states as a selling point.

In addition to Coinbase, a second regulated exchange is in the works, fronted by Cameron and Tyler Winklevoss, two of the largest-known holders of Bitcoin currency.

And while Bitcoin's core initial users, who Grinberg describes as "extremely anti-government, very Libertarian," have already moved on to creating other alternative currencies that are more anonymous than Bitcoin.

Debate also continues on what, precisely, Bitcoin is. From Hanke's perspective, Bitcoin isn't a currency, noting its price volatility and that it has no unit of account component. "[I]t can't buy a pound of rice at the end of the day when it could at the beginning," he said.

But Bitcoin represents the start of a process that will ultimately have "some form of cryptocurrency that works," said Hanke.