

Bitcoin Exchange Mt. Gox goes Dark in Blow to Virtual Currency

By Ruairidh Villar, Sophie Knight and Brett Wolf – February 25, 2014 – www.yahoo.com



Mt. Gox, once the world's biggest bitcoin exchange, abruptly stopped trading on Tuesday and its chief executive said the business was at "a turning point," sparking concerns about the future of the unregulated virtual currency.

Several other digital currency exchanges and prominent early-stage investors in bitcoin responded with forceful statements in an attempt to reassure investors of both bitcoin's viability and their own security protocols.

The website of Mt. Gox suddenly went dark on Tuesday with no explanation, and the company's Tokyo office was empty - the only activity was outside, where a handful of protesters said they had lost money investing in the virtual currency.

Hours later, Mt. Gox CEO Mark Karpeles told Reuters in an email: "We should have an official announcement ready soon-ish. We are currently at a turning point for the business. I can't tell much more for now as this also involves other parties." He did not elaborate on the details or give his location.

Bitcoin has gained increasing acceptance as a method of payment and has attracted a number of large venture capital investors. At a current price of about \$517, the total bitcoins in circulation are worth approximately \$6.4 billion.

Investors deposit their bitcoins in digital wallets at specific exchanges, so the Mt. Gox shutdown is similar to a bank closing its doors - people cannot retrieve their funds.

A document circulating on the Internet purporting to be a crisis plan for Mt. Gox, said more than 744,000 bitcoins were "missing due to malleability-related theft", and noted Mt. Gox had \$174 million in liabilities against \$32.75 million in assets. It was not possible to verify the document or the exchange's financial situation.

If accurate, that would mean approximately 6 percent of the 12.4 million bitcoins minted would be considered missing.

A statement on Bitcoin's website said, "In the event of recent news reports and the potential repercussions on MtGox's operations and the market, a decision was taken to close all transactions for the time being in order to protect the site and our users. We will be closely monitoring the situation and will react accordingly."

The digital currency has caught the eye of regulators concerned with consumer protections and bitcoin's use in money laundering.

Benjamin M. Lawsky, Superintendent of Financial Services for the State of New York, said in a statement, that while all of the facts surrounding Mt. Gox are "not yet clear, these developments underscore that smart, tailored regulation could play an important role in protecting consumers and the security of the money that they entrust to virtual currency firms."

Lawsky said last month that he planned to issue rules for businesses handling virtual currencies.

SECURITY QUESTIONS

Mt. Gox halted withdrawals earlier this month after it said it detected "unusual activity on its bitcoin wallets and performed investigations during the past weeks." The move pushed bitcoin prices down to their lowest level in nearly two months.

Even with the halt on February 7, Mt. Gox still handled more transactions than any other in the past month. Over the last 30 days, Mt. Gox has handled more than one million bitcoin transactions denominated in dollars, or about 34 percent of activity, according to Bitcoincharts, which provides data and charts for the bitcoin network.



Critics of the exchange, from rivals to burned investors, said the digital marketplace operator had long been lax over its security. Investors in bitcoin, who have endured a volatile ride in the value of the unregulated cyber-tender, said they still had faith in the currency despite the problems at Mt. Gox.

"Mt. Gox is one of several exchanges, and their exit, while unfortunate, opens a door of opportunity," The Bitcoin Foundation, the digital currency's trade group, said in a statement. "This incident demonstrates the need for responsible individuals and members of the bitcoin community to lead in providing reliable services."

United Kingdom-based Bitstamp, the second-largest bitcoin exchange by volume, said on its website that it had done an audit of its systems and that it was not subject to the same kind of "malleability" that "was apparently exploited at Mt. Gox." Similarly, BTC-E, another exchange, assured investors that it has "no vulnerabilities during client transactions."

"VERY ANGRY"

Bitcoin has been a roller-coaster of late, rising and falling dramatically, sometimes on an intraday basis, and its price varies greatly depending on the exchange. The program that runs the currency has been the target of hackers disrupting transactions recently.

The Mt. Gox bitcoin, which traded at \$828.99 before February 7, when the exchange halted withdrawals, since plunged 83.7 percent to \$135.

At Bitstamp, the price hit a low of \$400 on Tuesday, down 40 percent since February 7. It had recovered lately to \$517.

Bitstamp has had more than 800,000 U.S. dollar transactions in the last 30 days, according to Bitcoincharts. In the last two days, Bitstamp has handled more volume than Mt. Gox.

Mt. Gox was a founding member and one of the three elected industry representatives on the board of the Bitcoin Foundation. A bitcoin exchange since 2010, Mt. Gox is a relatively old player, having grown quickly when there were few alternatives.

On Sunday Karpeles resigned from the Foundation's board.

"I'm very angry," said Kolin Burges, a self-styled "crypto-currency trader" and former software engineer who came from London for answers after Mt. Gox did not tell him what happened to his bitcoins, which at one point were worth

\$300,000.

Six leading bitcoin exchanges - which allow users to trade bitcoins for U.S. dollars and other currencies - distanced themselves from Mt. Gox.

"This tragic violation of the trust of users of Mt. Gox was the result of one company's actions and does not reflect the resilience or value of bitcoin and the digital currency industry," the companies - Coinbase, Kraken, Bitstamp, BTC China, Blockchain and Circle - said in the statement. "As with any new industry, there are certain bad actors that need to be weeded out, and that is what we're seeing today."

Venture capitalists, many of whom have invested in bitcoin and related services, jumped to bitcoin's defense.

Fred Wilson, a partner at Union Square Ventures and a backer of Coinbase, which allows consumers to easily buy and sell bitcoins with wallets directly connected to their bank accounts, wrote in a blog post that part of the maturation of a sector "will inevitably be failures, crashes, and other messes."

"The wonderful thing about a globally distributed financial network is that if one of the nodes goes down, it doesn't take the system down," he wrote, adding that he had bought



some bitcoin on Tuesday. "I always feel good buying when there is blood in the streets in any market."

Marc Andreessen, whose venture capital firm has invested millions in bitcoin ventures, told CNBC that other exchanges are doing fine.

In Boston, Kyle Powers and Chris Yim, co-founders of Liberty Teller, a company that operates a bitcoin automated teller machine, answered customers' questions at their kiosk in South Station Tuesday. Yim said he expects a price dip in bitcoin, but no long-term problems with the currency.

TEETHING PROBLEMS

Virtual currency exchanges "stand to benefit from the Mt. Gox fallout," but there will be "increased expectations on the transparency and disclosures they need to make to customers," said Jaron Lukasiewicz, co-founder and chief executive of Coinsetter, a New York-based bitcoin exchange.

Steve Hudak, spokesman for Treasury's anti-money laundering unit, the Financial Crimes Enforcement Network (FinCEN), said it is "aware of the reports regarding Mt. Gox" but had no additional comment. To date it is the only U.S. regulatory agency to have any oversight of Mt. Gox.

Democratic Senator Tom Carper of Delaware, who chairs the Homeland Security and Governmental Affairs Committee, said in a statement that Mt. Gox "is a reminder of the damage potentially ill equipped and unregulated financial actors can wreak on unsuspecting consumers. U.S. policymakers and regulators can and should learn from this incident to protect consumers."

Karpeles himself, while insisting on his own exchange's reliability, has made no secret that bitcoin is, as he told Reuters last April, a "high-risk investment."

"If you buy bitcoins, you should buy keeping in mind that the value could be zero the day after."

The concierge at his home - an upscale apartment in the Shibuya district - said he was not answering his intercom. His mailbox was so stuffed with mail that the flap would not close.