

PUBLICATION

Bitcoin: The World's Most Popular Virtual Currency

September 19, 2013

Bitcoin: The World's Most Popular Virtual Currency

With the Internet growing rapidly and aggressively as a tool of commerce, it is no surprise that virtual currencies (unregulated, Internet based decentralized currencies) are gaining popularity worldwide. In fact, the Internet's two largest online retailers, Amazon and Ebay, have recently introduced virtual currency platforms in response to this demand by the marketplace. In Amazon's case virtual currency can be used to purchase goods from its website. In Ebay's case their virtual currency can be used to enable transactions between online game players and it can be used as a way for group members to exchange virtual funds in social networks. The 'Bitcoin' is one such virtual currency, but it is currently the most popular virtual currently being utilized worldwide, and in addition to the increasing number of online retailers accepting Bitcoin, some of the more trendy 'bricks and mortar' stores in cities such as New York, San Francisco, Toronto, Calgary and Edmonton are starting to accept Bitcoin as an acceptable form of payment.

The concept of Bitcoin was introduced in a 2008 paper by a pseudonymous developer known only as "Satoshi Nakamoto", who called it a peer-to-peer, electronic cash system. Bitcoins are created each day by a complex process of 'mining' accomplished by individuals and companies running technology which results in massive amounts of computer power that break complex mathematical algorithms which in turn lead to the creation of Bitcoins on a daily basis. Due to reasons related to the Bitcoin creation system and related mathematics, only 21 million Bitcoins will ever be issued, and once that limit is reached the amount in circulation will be fixed and permanent, which limit is estimated to be reached in the year 2140.

Bitcoin is a 'virtual' currency, a decentralized, open source peer-to-peer currency that is traded online and can be exchanged into traditional currencies through online exchange and/or brokerage companies and platforms (at the time of writing there are two Canadian based Bitcoin exchanges and brokerages that have been successfully operating in Canada for a number of years). The 'peer-to-peer' aspect of Bitcoin facilitates transactions in which participating parties recognize its value.

There is no central bank or clearing house for Bitcoins, no financial regulator, and Bitcoins are not tied to any national currency. At the time of this writing, the Bitcoin, unlike the Canadian Dollar and the Euro, for example, is not currently subject to government regulation and the Bitcoin does not carry the status of legal tender in any jurisdiction. Furthermore, as they are not tied to specific governments or economies, Bitcoins are also resistant to the effects of governmental currency manipulation often seen in traditional currencies. This feature is particularly important in countries with economic instability and fears of massive devaluation or banking

collapse evidenced by the marked increase in the purchase and use of Bitcoins during the financial crises in Greece and Cyprus.

What are some of the benefits of using Bitcoin online or at physical storefronts to purchase goods or services?

1. Transactions can occur very quickly, and two parties (individual-to-individual or individual-to-online retailer) can exchange Bitcoins online using virtual 'wallets' stored on their laptops, desktops, virtual cloud-based locations or smartphones. A consumer at a physical 'bricks and mortar' storefront can literally tap their smartphone to a tablet set-up at a cashier and the transaction can be processed.
2. Retailers avoid paying service fees normally associated with banking transactions (i.e. fees charged by credit card companies or banks).
3. The Bitcoin network is created in such a way as to prevent double or unauthorized spending. In the event unauthorized spending occurs, a reversal could occur in as little as one hour, compared to credit cards which can see chargebacks occur up to three months after the original transaction.
4. Users can buy and sell to other users or to online or storefront vendors without bank accounts, email addresses, user names and passwords, which can provide a high level of convenience and anonymity.

Currently in Canada Bitcoins, the brokerages and/ or exchanges that are used to convert Bitcoins into traditional currencies, and online and storefront vendors are not subject to regulation, so it is somewhat of a "wild west" type of environment. Having said that, it is almost certain that the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is monitoring the situation, and that some sort of legislation and regulation will follow. Contrast this with the United States, where various divisions of the United States Treasury Department have formally issued guidance on Bitcoin and where local state based government agencies such as the New York Department of Financial Services and the California Department of Financial Services have recently sent cease and desist letters to many Bitcoin companies. State regulators in the United States are still trying to figure out exactly how to regulate Bitcoin, but if history is any indication, it is only a matter of time before Canada follows the example set by the US government in terms of regulation of Bitcoin and its users (all entities operating in the Bitcoin virtual currency space). Our prediction is that such regulation, as a starting point at least, could come through the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.

McLeod Law LLP has investigated Bitcoin and the regulatory scheme which will inevitably be making its way to Canada, making us the pre-eminent Firm in this area. We currently act for one of the two Canadian Bitcoin brokerages as well as other Bitcoin related companies capitalizing on the surge in popularity of this virtual currency in Canada and beyond. Bitcoin law and virtual currency law in general is a new and developing area, and along with regulatory legal advice, industry members will inevitably require legal advice in other areas of law such as corporate and securities law. McLeod Law LLP is highly qualified and interested to provide legal guidance in all areas of law that touch on Bitcoin.