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Gabriela Wong
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Bitcoin is widely relevant. Just look at the variety of Bitcoin-related accounts on Instagram, including one where a family of four is travelling around the United States using only Bitcoins. Bitcoin has also been introduced to mainstream consumers across the world as pre-paid gift cards. Walk into a convenience store in South Korea or Taiwan and buy yourself some Bitcoins on the spot. Similarly, Bitcoins have real-world implications since major retailers such as Overstock have begun to accept Bitcoins as an alternative form of payment.

Bitcoin is a decentralized, pseudonymous, purely peer-to-peer digital currency with no third party intermediary. In layman's terms, Bitcoins are not issued or regulated by any central government, which also means that users can save on transaction costs. The Bitcoin protocol is built on a technology known as the blockchain, where Bitcoins are generated at a fixed, determinable rate through a process called mining, which verifies Bitcoin transactions by adding them to the blockchain.

In the recent movie Horrible Bosses 2, Bitcoins were used to buy burner phones to pull off a kidnapping. Bitcoins were also used to purchase drugs on the online market Silk Road, eventually leading to the indictment of its creator, as well as others who used Silk Road to launder money. However, contrary to popular belief and mainstream media, Bitcoins are not used exclusively to perpetrate crimes like money laundering or terror funding. Bitcoins aren't even that anonymous to begin with. Since all Bitcoin transactions are recorded permanently in a ledger available for public viewing, Bitcoins do leave a "paper trail" and may therefore be ill suited for criminal means.

Bitcoin represents the future of paymentsmoney y, but unfortunately the Bitcoin system is currently not secure enough. In 2013, the world's largest Bitcoin exchange, Mt. Gox, experienced a series of hacking raids which resulted in the loss of over $400 million worth of both its own as well as its customers' Bitcoins. After failed attempts to recover the lost Bitcoins, Mt. Gox eventually declared bankruptcy.

The government has been quick to recognize that the Bitcoin protocol is not perfect, and customer protection is at risk. Both the federal and state governments have attempted, or are attempting, to pass regulations on the use of Bitcoins. FinCEN, a division of the federal government concerned with money laundering, expanded its current definition of Money Services Businesses to encompass those companies transacting in Bitcoins. The IRS also issued a guidance that any virtual currency, including Bitcoin, is considered property for federal tax purposes, and any net gain from Bitcoin transactions is subject to capital gains treatment. The New York Department of Financial Services recently proposed a regulatory framework that requires Bitcoin companies that engage in the business of storing or converting Bitcoin to a fiat currency to apply for a BitLicense. After a 90-day period to solicit public feedback, the BitLicense was criticized as "overbroad and stifling innovation." Many companies warned that should the BitLicense be passed in its proposed state, they would have no choice but to pull out of the New York market. Currently, the NYDFS is considering all comments in amending the BitLicense. Most notably, it announced that it was considering a transitional BitLicense for small businesses and startups in order to alleviate compliance costs.

There is a clear need for regulation of Bitcoin companies, especially following the collapse of Mt. Gox. If Mt. Gox had been subject to the regulatory requirements as a financial institution, it would have been required to keep emergency funds or maintain insurances in order to cover losses. Therefore, regulation is necessary for both the sake of the government in weeding out criminal activity, and for the sake of innocent Bitcoin users who may fall victim to such crimes. The current Bitcoin scheme fails in this respect as opposed to traditional financial products which have strong consumer protections. However, it is possible that the BitLicense in its current form constitutes over-regulation. Forcing Bitcoin companies to collect personal information of its customers merely provides insurance in the case of theft or fraud, an ex post method that does not help with the problem in the long run. Instead of trying to regulate a flawed technology, the government may be better off investing its time and resources in improving the Bitcoin technology to prevent crime ex ante. At the very least, such methods infringe less upon the very privacy interests upon which Bitcoin is built. Alternatively, if the government is concerned about arguments that the BitLicense diminishes privacy (albeit an argument that does not hold up given that the blockchain does not provide much privacy in the first place), it could focus on developing other alternative currencies that are built on anonymity. Also, apart from attempting to fix privacy issues with Bitcoin, the government can look at other problems that plague the Bitcoin protocol, including its instability as a decentralized currency. By promoting research projects with similar aims, it can aid in the sustainability of Bitcoin in the long term.

On the other hand, the government could take a hands-off approach and allow the Bitcoin community to impose self-regulation through market forces. The diminished security of trading in Bitcoin will lead to an increased need for Bitcoin companies to provide enhanced protection of any Bitcoins held in trust. Recent events have shown that the Bitcoin community is capable of fixing its problems. For example, where Bitcoin companies had previously failed to obtain insurance services, there are now many private companies providing FDIC-style services to Bitcoin companies without the push of regulation. As part of a community that is resistant to governmental regulation, Bitcoin might flourish in an industry governed by standards and not rules.

Gabriela Wong is a second-year law student at Benjamin N. Cardozo School of Law and a Staff Editor of the Cardozo Arts and Entertainment Law Journal. She is a Bitcoin enthusiast with a keen interest in alternative currencies.