



Bitcoin and U.S. Regulation

Bitcoin faces an uncertain regulatory future in the U.S. This uncertainty has led to the U.K.'s newest and most developed bitcoin exchange, Coinfloor, not accepting U.S. customers, at least initially.

Bitcoin is a 'peer to peer' virtual currency created by a computer generated math based protocol. Bitcoin is an extremely risky and volatile investment with bitcoin's value fluctuating by as much as 75 percent in recent weeks alone. Bitcoin faces various risks to holding its value and its viability. These include but are not limited to:

1. Lack of widespread or continued adoption of bitcoin;
2. Security concerns including proof of ownership and theft by computer hackers;
3. Competition from rival virtual currencies;
4. Corruption and divergence in the software protocol governing bitcoin;
5. Decrease in incentives for miners to create new bitcoin;
6. The viability and existence of the exchanges bitcoin is traded on, and;
7. Current and potential financial regulation that negatively affect the value of bitcoin or even outlaw it completely.

Bitcoins are traded globally primarily on three major bitcoin exchanges located in China, Japan and Slovenia. Financial regulators in markets such as the U.K. and Canada have largely left bitcoin unregulated however China has acted in banning its banks and payment companies from dealing in the currency. But China continues to allow its citizens to buy and sell bitcoins.

To date, the Financial Crimes Enforcement Network ("**FinCEN**") is the only U.S. federal regulator to have released official guidance (the "**Guidance**") on the use of virtual currencies including bitcoin. FinCEN issued the Guidance to clarify the applicability of the Bank Secrecy Act ("**BSA**") to bitcoin by stating that any administrator or exchanger of bitcoin must be a registered Money Services Business under FinCEN's regulations. The Guidance notes that a user of bitcoin (a person that obtains virtual currency to purchase goods or services) is not subject to FinCEN's regulations nor are dealers in foreign exchange who exchange bitcoin for fiat currency or vice-versa. The lack of applicability to the latter is due to virtual currency not meeting the definition of currency under the BSA.

Other major U.S. federal regulators such as the Securities and Exchange Commission and the Commodity Futures Trading Commission are yet to issue guidance on the regulation of bitcoin however this guidance may be forthcoming and investors should keep this in mind, together with the inherent risks of the asset, when investing in bitcoin.