

WHAT IS THE FUTURE OF BITCOIN?

Just last fall, the first bitcoin ATM opened in Vancouver, and three weeks ago plans were announced for the first U.S. bitcoin ATMs in Seattle and Austin. But the February 28 bankruptcy filing in Japan by the world's largest bitcoin exchange, followed by its U.S. bankruptcy filing on March 9, comes on the heels of the "Bitcoin Bank" shutdown after the theft of 896 bitcoins. Are these setbacks enough to take the bite out of bitcoin?

Like the FIFO Model

The co-founder of a bitcoin investment fund has pointed out that the first to innovate is often the first to take the blows from any new emerging industry, and that the public should not confuse the crash of a private company with the end of an entire industry. "This is a common trend when it comes to new innovations," he said. "The weak, poorly managed companies that reached the top will go down and the properly managed companies will battle each other for the number one position."

In fact, he is so confident that the market for bitcoin is sustainable, his company has offered to buy the 27,000 bitcoins seized by the FBI from the Silk Road raid — a collection worth an estimated \$14.8 million today.

Global Investment Managers Express Interest

One highly diversified global investment manager reported a \$3.7 million paper loss on bitcoin in 2013 from a \$20 million purchase, according to SEC filings submitted last week. In perspective, that investment represented less than 1 percent of that company's overall \$2.6 billion balance sheet.

What is significant is that the firm became the first large public company to officially disclose such a huge bitcoin investment, and that revelation will likely encourage other fund managers to get on board. "This makes it more legitimate for the hedge funds to buy, and easier, and provide the path for any other public company to report it," according to the managing director at a competing fund.

Poor Risk Controls Led to Exchange Losses

The CEO of the bitcoin exchange that abruptly shut down last month claimed that the 850,000 bitcoins that "disappeared" were a loss — worth about \$500 million — that took place "over several years" and was due to "weaknesses in the system which allowed cyber attacks — and theft — to occur."

Essentially, it was a classic case of high-tech fidelity loss.

GreenPoint Legal's Risk Assessment services pinpoint areas of vulnerability in your organization's loss prevention and security protocols, thereby minimizing fidelity loss. Contact us today for more information.