Bitcoin's reputation as a viable currency has been dealt a blow, with its biggest exchange filing for bankruptcy in the wake of a digital robbery.

Angry investors have been seeking answers for what happened to their holdings of cash and bitcoins on the unregulated Tokyo-based exchange. (AFP)

Bitcoin's faltering reputation as a viable currency has been dealt a severe blow, with its biggest exchange filing for bankruptcy in the wake of an apparent $480-million digital robbery.
Tokyo-based MtGox blamed "a weakness in our system" for its collapse, which an expert said could go down in history as one of the world's biggest heists, if it is confirmed that the platform was hacked.

The contrite chief executive of MtGox, Mark Karpeles, bowed deeply in apology at a news conference, as he pleaded to lodge a criminal complaint over the site's downfall.

Wearing a suit instead of his usual trademark T-shirt, the 28-year-old French entrepreneur added that bitcoin's popularity would not be dented by the cyberheist.

"First of all, I'm very sorry," he said. "The bitcoin industry is healthy and it is growing. It will continue, and reducing the impact is the most important point."

Angry investors have been seeking answers for what happened to their holdings of cash and bitcoins on the unregulated Tokyo-based exchange. MtGox, which was used overwhelmingly by foreigners, said it had lost 750 000 of its users' bitcoins and 100 000 of its own. At the current bitcoin price of about $565, that would total some $480-million, representing about 7% of the estimated global total of bitcoins.

Bitcoin users are able to buy goods anonymously in online marketplaces that use the virtual currency, and also avoid sales taxes and currency controls. For instance, bitcoins proved popular in Cyprus last year when restrictions were imposed on using the euro.

Unique solution
Exchanges such as MtGox offer a way to convert official currencies such as dollars into bitcoins. Each virtual coin represents a unique solution to a complex cryptographic problem, aimed at preventing duplication and forgery.

MtGox has 127 000 creditors, of whom 1 000 are Japanese, which means that, through the bankruptcy, traders have lost, on average, the equivalent of $3 500 at current bitcoin prices, assuming no money is recovered.

Some investors interviewed after the MtGox collapse remained optimistic that the currency would survive. Roger Ver, a major investor, said he did not know whether he would ever get any of his lost bitcoin back.

"But the important thing to realise is that MtGox is just one company using bitcoin. The bitcoin technology itself is still absolutely amazing," he said.

"If one email service provider is having a problem, that doesn't mean people are going to stop using email. It's the same with bitcoin."

The "weakness in our system" referred to by Karpeles is thought to be an issue related to "transaction malleability", a loophole in the bitcoin system that was exploited by malefactors to obtain free bitcoins from the site.

Increasing usage
"MtGox filing for bankruptcy is not the end of bitcoin but it is the beginning of the end of bitcoin in its current form," said currency trader Alistair Cotton of Currencies Direct.

"Over the last year, we've seen ever-increasing usage and with it huge volatility in value and blows from banks and regulators. These are growing pains as the currency evolves and the MtGox bankruptcy is part of that."

But one expert said the disappearance of MtGox's virtual assets could go down in history as the biggest heist of all time.

"If the theft is true," said Campbell Harvey, a professor at Duke University's Fuqua School of Business in North Carolina, "it's the biggest bank heist in history" – apart from when Iraqi leader Saddam Hussein ordered his son Qusay...
to withdraw $1-billion from Iraq's central bank in 2003.

Founded in 2009 by American software hacker Jed McCaleb, MtGox was originally a site for people to trade cards for a game called Magic: The Gathering. MtGox is short for Magic: The Gathering Online Exchange. – © Guardian News & Media 2014

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