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## Collapse of exchange spells trouble for bitcoin

By Associated Press, Updated: Tuesday, February 25, 5:17 PM

TOKYO — The sudden disappearance of one of the largest bitcoin exchanges only adds to the mystery and mistrust surrounding the virtual currency, which was just beginning to gain legitimacy beyond the technology enthusiasts and adventurous investors who created it.

Prominent bitcoin supporters said the apparent collapse of the Tokyo-based Mt. Gox exchange was an isolated case of mismanagement that will weed out “bad actors.” But the setback raised serious questions about bitcoin’s tenuous status and even more tenuous future. At least one supporter said the blow could be fatal to bitcoin’s quest for acceptance by the public.

A coalition of virtual currency companies said Mt. Gox went under after secretly racking up catastrophic losses. The exchange had imposed a ban on withdrawals earlier this month.

By Tuesday, its website returned only a blank page. The collapse followed the resignation Sunday of CEO Mark Karpeles from the board of the Bitcoin Foundation, a group seeking wider use of the exotic currency.

San Francisco-based wallet service Coinbase and Chinese exchange BTC China sought to shore up confidence in the currency by saying the Mt. Gox’s situation was isolated and the result of abusing users’ trust. They offered no details.

“As with any new industry, there are certain bad actors that need to be weeded out, and that is what we are seeing today,” the statement said.



The advertisement features the Norton by Symantec logo at the top. Below it is a graphic of a network map with various icons representing technology and security. In the center, three Norton security software boxes are displayed: Norton Internet Security, Norton 360, and Norton AntiVirus. Below the boxes, the text reads: "More Stuff More Secure Our updated line of security solutions". At the bottom, there is a yellow button with the text "Learn More".

Since its creation in 2009, bitcoin has become popular among tech enthusiasts, libertarians and risk-seeking investors because it allows people to make one-to-one transactions, buy goods and services and exchange money across borders without involving banks, credit card issuers or other third parties. Criminals like bitcoin for the same reasons.

For various technical reasons, it's hard to know just how many people worldwide own bitcoins, but the currency attracted outside media attention and the fascination of millions as an increasing number of large retailers such as Overstock.com began to accept it.

Speculative investors have jumped into the bitcoin fray, too, sending the currency's value fluctuating wildly in recent months. In December, the value of a single bitcoin hit an all-time high of \$1,200. In the aftermath of the Mt. Gox collapse Tuesday, one bitcoin stood at around \$470.

Central banks across the globe have been hesitant to recognize bitcoin as a form of money, and Tuesday's vanishing act isn't helping.

Mt. Gox "reminds us of the downside of decentralized, unregulated currencies," said Campbell Harvey, a professor at the Duke University Fuqua School of Business who specializes in financial markets and global risk management. "There is no Federal Reserve or IMF to come to the rescue. There is no deposit insurance."

However, Campbell said, Mt. Gox's disappearance "doesn't mean the end of the road" for bitcoin and other virtual currencies.

The collapse "might represent the end of the 'wild west,' where anyone can set up shop and deal in crypto-currencies," he said. But "increasingly sophisticated investors" are funding serious ventures that will "raise both quality and confidence."

Documents purportedly leaked from Mt. Gox lay out the scale of the problem. An 11-page "crisis strategy draft" published on the blog of entrepreneur and bitcoin enthusiast Ryan Selkis said that 740,000 bitcoins were missing from Mt. Gox. That's equivalent to hundreds of millions of dollars' worth of losses, although figures are fuzzy given Bitcoin's extreme volatility.

"At the risk of appearing hyperbolic, this could be the end of bitcoin, at least for most of the public," the draft said.

In a post to his blog, Selkis said that the document was handed to him by a "reliable source" and that several people close to the company had confirmed the figures. Reached by phone, he declined to comment further. The Japanese government has not announced any formal investigation.

The scandal may cost customers dearly.

At the Tokyo office tower housing Mt. Gox, bitcoin trader Kolin Burges said he had picketed the building since Feb. 14 after traveling from London in an effort to get back \$320,000 he has tied up in bitcoins with Mt. Gox.

"I may have lost all of my money," said Burgess, next to placards asking if Mt. Gox is bankrupt. "It hasn't shaken my trust in bitcoin, but it has shaken my trust in bitcoin exchanges."

Mt. Gox CEO Karpeles did not immediately return several messages seeking comment. A security officer at the

office tower said no one from Mt. Gox was in the building. Tibbane, an Internet company that Karpeles is CEO of, still has its name listed on the building's directory.

"I have no idea" where they are, said Burges, the trader. "I'm both annoyed and worried."

Bitcoin's boosters say the currency's design makes it impossible to counterfeit and difficult to manipulate. But it has struggled to shake off its associations with criminality, particularly its role in powering the now-defunct online drug marketplace Silk Road. Only last month, another member of the Bitcoin Foundation, Vice Chairman Charlie Shrem, was arrested at New York's Kennedy Airport on charges of money laundering.

Authorities have been taking an increasingly hard look at bitcoin and related virtual currencies, including Litecoin, Namecoin, Ripple and countless others. Some countries, including Russia, have effectively banned the currency. In other jurisdictions, authorities are weighing whether to try to tame the marketplace through licenses or other mechanisms.

Even if Mt. Gox doesn't drag bitcoin down with it, there's fear that the exchange's demise will push financial regulators to take an even more skeptical stance.

"I think this is disastrous from a (regulatory) standpoint," Selkis said in a message posted to Twitter. "The hammer will now come down hard."

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Satter reported from London.

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Associated Press Writer Stephen Wright in Bangkok also contributed to this report.

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