MARKETS

First U.S. Bitcoin Exchange Set to Open
Coinbase Has Backing From the NYSE, Banks and Venture Capitalists

By GREG BENSINGER
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The virtual currency bitcoin is getting a very real boost on Monday with the opening of the first licensed U.S. exchange.

Coinbase Inc., a startup backed by $106 million from the New York Stock Exchange, banks and venture-capital firms, said its exchange will offer greater security for
individuals and institutions to trade bitcoin and monitor real-time pricing of the cryptocurrency.

The exchange could bring needed legitimacy to the currency, which isn’t backed by a central government and is traded over virtual exchanges, primarily overseas. Coinbase said it has insurance, offering traders some assurance that their money won’t disappear.

Bitcoin enthusiasts have been buffeted by the collapse of Japan-based exchange Mt. Gox last year—taking with it around half a billion dollars of investors’ money—and a security breach earlier this month at Slovenia-based exchange Bitstamp. The value of a bitcoin itself, determined by trading on existing exchanges, has fallen to about $240 from a peak in late 2013 of above $1,200.

“To have an organized exchange that has the backing of thoughtful venture capitalists and investors addresses one of the main problems with bitcoin: its extreme volatility,” said Campbell R. Harvey, a Duke University finance professor who has studied cryptocurrencies. “Bitcoin has been sorely in need of something like this.”

Coinbase’s founders say they have been working for roughly a year to win licenses from state financial regulators. Coinbase will operate exchanges in 24 states. Only account holders in those states can use the exchange.

Coinbase will take a small percentage, 0.25%, of most transactions and will take no fees for the first two months, said Fred Ehrsam, 26 years old, a co-founder. The exchange will initially be limited to users in the U.S., but Chief Executive Brian Armstrong, 32, said he plans to expand overseas.

Mr. Armstrong said he expected to attract both individuals and businesses looking to trade bitcoin. “Our goal is to become the world’s largest exchange,” he said.

Others are looking to open U.S.-based bitcoin exchanges, including Tyler and Cameron Winklevoss, the twin brothers known for their early feuds with Facebook Inc. founder Mark Zuckerberg.

Financial regulators, including the Federal Reserve, have been scrutinizing bitcoin recently. Benjamin Lawsky, the superintendent of the New York State Department of Financial Services, is working on a so-called BitLicense for firms looking to offer digital-currency services in the state; Coinbase is operating under earlier regulations. Mr. Lawsky’s plan is seen as a template for legislation in other jurisdictions, and it may
give outsiders more confidence in the currency.

- Mims: In Defense of ‘Jerk Tech’ (http://www.wsj.com/articles/no-free-parking-for-an-app-that-tried-1422234966)

Bitcoins are created using high-powered computers that “mine” for the currency by solving complex mathematical equations. They are exchanged digitally either for currency, or goods and services. Ownership and transactions are recorded, anonymously, in a so-called blockchain, which backers say reduces the risk of fraud.

Bitcoin grew to prominence in recent years in part because of the ease with which it can be transferred.

Coindesk, which tracks the price of bitcoins, says 82,000 businesses accept the currency, double that of a year earlier, including e-commerce site Overstock.com Inc. and Expedia Inc., as well as many small retailers. The value of all bitcoin is $3.2 billion, according to Coindesk’s price index.

The NYSE invested in Coinbase during a $75 million round of fundraising that closed this month.

Other investors include USAA Bank, the venture arm of Spain’s Banco Bilbao Vizcaya Argentaria SA and former Citigroup Inc. CEO Vikram Pandit and former Thomson Reuters Corp. CEO Tom Glocer. Venture backers include Draper Fisher Jurvetson, Andreessen Horowitz and Union Square Ventures.

The NYSE’s investment was intended in part to “keep an eye on bitcoin as it matures as a legitimate currency,” President Tom Farley said. “Any currency relies on its acceptance.” The Coinbase exchange “is an important step for the currency to become socially acceptable.”
Coinbase counts about 2.2 million consumer wallets and nearly 40,000 merchants that use its services. The company has about 75 employees and plans to operate in 30 countries by year-end, up from 19 today.

**Corrections & Amplifications**

Founders of startup virtual currency exchange Coinbase Inc. have been working to win regulatory approval for roughly a year, and the company is operating bitcoin exchanges in 24 states, including New York and California. An earlier version of this article incorrectly said Coinbase’s founders have been working for five months and have received regulatory approval in half of U.S. states, including New York and California. (Jan. 26, 2015)

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