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# Big Next Step for Bitcoin: Meeting the Regulators



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Bitcoin likely has a long way to go before regulators step in and start controlling the market, and once it does get there it may not be for the right reasons.

The digital online currency, which has been around for four years, essentially flew under the radar until the past two months or so, when tumult in Cyprus sparked a flight to bitcoins and sent it on a wild price ride.

Now that things have settled and the chatter has faded, the next step will be to watch whether bitcoin graduates from a cyberworld fad to a legitimate currency.

Ironically, that could come because regulators think bitcoin is being used for nefarious purposes—say, funding drug or terrorist organizations, or if holders start getting ripped off.

“They are not there yet,” said Peter Dugas, director of government affairs at the Clark Hill law firm and a former deputy assistant Treasury secretary.

“What would probably trigger that would be some sort of significant outflow, whether it’s currency or transactions abroad and they start to see patterns of people trying to hide finances abroad,” he added.

In the worst-case scenario for bitcoin, that type of malfeasance would bring in regulators who then would enact the toughest measure of all: shutting down the whole operation.

Short of that, U.S. bitcoin regulation would have to start in Congress, and then would spill over into the global currency market and its \$4 trillion a day of action.

A number of agencies would be involved, including the Commodity Futures Trading Commission, the National Futures Association and the Financial Services Authority.

That would take bitcoin out of the murky world of online creators and dealers and into the public markets.

When that would happen, though, would likely be a far cry from the current \$1.4 billion world in which bitcoin currently exists.

“It’s not mature enough for the U.S. government or other regulators to take a serious look,” Dugas said. “As it grows in other countries, whether in Europe or Asia or other localities, they may start to look at this as a serious way to transact currencies.”

Whether bitcoin ever is viewed as a legitimate currency is important on several fronts.

Venture capitalists are watching its growth and examining whether it would be a more efficient way to conduct business internationally than global currencies that are being constantly devalued, said Nicholas Colas, chief market strategist at ConvergeX.

“We continue to believe that this phenomenon is the most provocative economic experiment since the invention of the euro and well worth watching,” Colas said in a note to clients. “The next chapter of the story will be the entry of a host of smart-money venture capitalists looking to build the currency’s infrastructure.”

The Financial Crimes Enforcement Network, or FinCen, has signed off regarding online currencies, saying that it would not prosecute their originators so long as no criminal behavior is taking place.

April was a difficult month for bitcoin, with huge fluctuations in price and attempted hackings denting its credibility.

But the price seems to have stabilized for the moment and is still up about 50 percent in value for the month.

“Venture capital faces a huge challenge in making bitcoin user-friendly and secure enough to be ready for prime time,” Colas said. “In the end, (venture capital firms) must address the security issues of the system first, and then work on making bitcoin a relevant currency for global financial transactions.”

Should the bitcoin trading network gain legitimacy, the impact could be widespread.

“Investing in bitcoin has been a white-knuckle ride so far, and nothing in its near future points to a different trajectory,” Colas said. “How it all shakes out, however, will be both instructive to watch and potentially profitable for those on the right side of this very novel trade.”

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