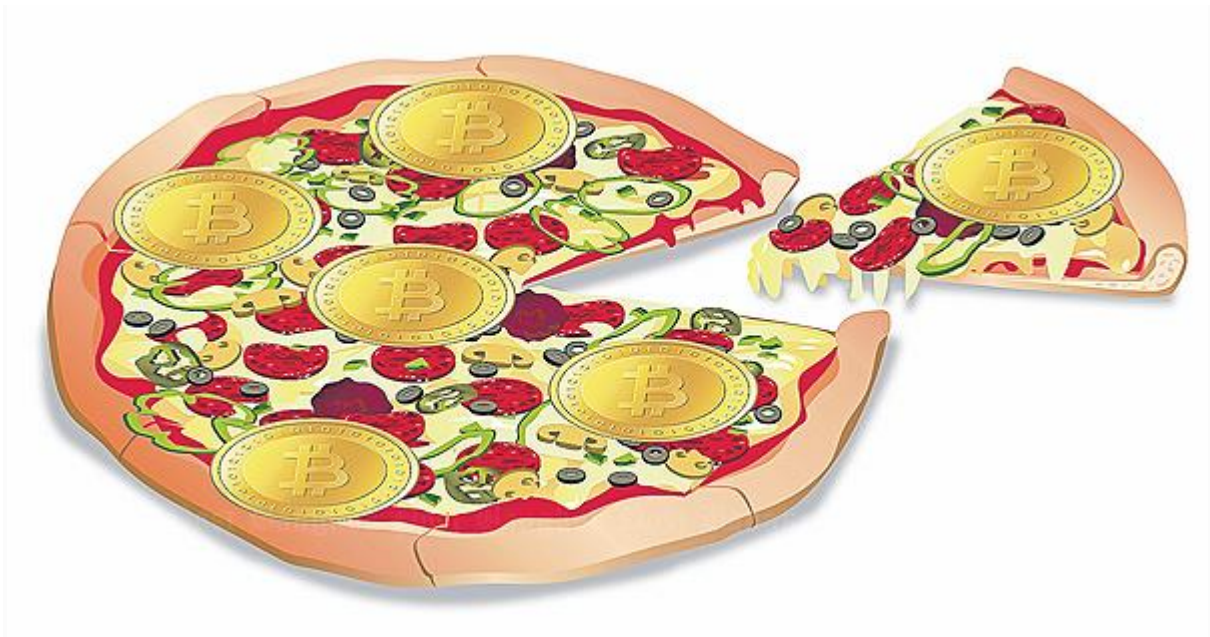


Bitcoin Basics

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Thailand recently made financial headlines by reportedly becoming the first country to ban the use of bitcoins. If you are wondering, "What is a bitcoin and why should I care?" you're not alone (but you are probably over 30).



As the latest evolution in financial technology, bitcoin is a peer-to-peer electronic "virtual" currency that is created and transferred independent of any central authority, ie central banks. Bitcoin was introduced in 2008 by a group of still-anonymous developers operating under a pseudonym, as an e-commerce alternative to credit cards and PayPal.

It is now used for online purchases and is slowly gaining popularity as a form of payment outside of the wired world for everything from dry cleaning to pizza delivery. Members of the Israeli Bar Association even accept bitcoin as payment for legal fees.

Bitcoins can be bought by creating your own unique "wallet" through bitcoin's official website or one of the other facilitators of bitcoin transactions. You can then use your wallet address to request bitcoins by sending funds to a bitcoin exchange electronically.

Once the bitcoins are in your wallet, you can use them either over the internet or through your smartphone to make purchases. For example, BitMit.net is an online auction site exactly like eBay; except all items are also priced in bitcoins. Anything you can buy on eBay you can also buy on BitMit using bitcoins. Governments are also beginning to see the virtues of electronic currency, such as the Royal Canadian Mint's bitcoin alternative, MintChip.

Bitcoins are created, distributed and authenticated without the involvement of any bank or government. Bitcoin is classified as a "virtual currency" because it is not legal tender under any sovereign jurisdiction. The currency's cryptography makes it almost immune from counterfeiting, and its relative anonymity enables one to spend money without scrutiny.

Bitcoins are created or "mined" by using financial cryptography on specifically configured computers; the details of which are more appropriate for an IT column. The creation of new bitcoins is regulated by a predetermined schedule coded into the system since inception that slowly decreases over time until reaching the set maximum limit; at which point bitcoins will no longer be produced.

The value of this virtual currency is derived primarily from three factors _ its legitimacy in the eyes of the people who accept it as a form of trade (exactly like fiat currency), public confidence that bitcoin's original developers will maintain their stated protocols regarding the creation of more bitcoins, and speculators who are increasingly viewing bitcoins as an investment opportunity.

Bitcoins were first introduced in the US, and are regulated there by the Financial Crimes Enforcement Network (FinCEN) which established the guidelines for "decentralised virtual currencies". FinCEN does not regulate the users of bitcoins themselves. Instead, FinCEN oversees those who generate the virtual currency, classifying their legal status as a "money services business", by regulating transactions and levying taxation in the same way as it would for any other currency exchange business.

Bitcoin gained notoriety following the central bank crisis in Cyprus earlier this year when all assets at all banks were frozen and subjected to a mandatory tax before the banks were opened again. Depositors worldwide faced the realisation that they had, in reality, very limited control over their assets.

Fearing that the Cypriot fate could soon be their own, many Europeans and others worldwide exchanged their currencies into bitcoin, one of the only alternatives to central bank-issued money, and the value skyrocketed from a low of US\$36 (1,120 baht) in March to over \$266 in April. The current value is around \$100. A number of online exchanges exist that allow you to trade bitcoins exactly how you would trade global stocks, cross-converting into various currencies.

Less than two weeks ago, the Bank of Thailand debated a money exchange licence application for the first government regulated bitcoin exchange company in Thailand. Similar to their US counterparts, this company sought to buy and sell bitcoins by using the national currency as its basis for exchange. However, unlike its US counterparts, the BoT Foreign Exchange Administration and Policy Department concluded that all activities related to the buying and selling of bitcoins are illegal in Thailand.

Although global headlines boasted that Thailand was the first country to "ban" bitcoins, in reality the BoT merely issued a preliminary ruling stating that due to a lack of existing laws dealing with anonymous, cryptographically protected digital currencies, using bitcoins as described is de facto illegal pending final judgment.

The BoT does not have the constitutional ability to outlaw anything outright, but as the central financial authority, it is granted the power to issue notifications which are interpreted in practice as the "law of the land".

Bitcoin faces a number of legal obstacles, mostly due to obsolete legislation, that must be navigated in order for it to become legal and regulated in Thailand. Regulators are wary that bitcoin may be a way to speculate on the exchange rate of the baht, although it is not a physical currency, and are also concerned about its potential use in more nefarious activities.

Laws such as the Exchange Control Act BE 2485 (1942), Anti-Money Laundering Act (last amended in 2009), and Computer Crime Act BE 2550 (2007), among others, all require revisiting before bitcoin will have the regulatory framework necessary to legally operate in Thailand.

However, given the growing popularity of bitcoin (currently a \$1.5 billion industry) and the new stream of tax revenue that would be generated from exchange businesses, it is only a matter of time before Thailand follows in the wake of its allies and opens the door to bitcoin commerce.

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