

ALABAMA SECURITIES COMMISSION

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Investor Alert - Use of Bitcoins are HIGH RISK with Minimal Protection for Consumers - Largest Bitcoin Exchange Experiences Significant Rise in Complaints

MONTGOMERY, ALABAMA (February 25, 2014) The Director of the Alabama Securities Commission has major concerns about the use and high financial risks surrounding the use of one of the new digital currencies (crypto-currency) called Bitcoin which isn't backed by any central banks throughout the world.

Bitcoins are being traded for goods and services by some vendors who are willing to accept them as a payment. Since the exchanges are made digitally, they are anonymous and often encrypted between users.

Controversy in the United States concerning Bitcoin continues to escalate as the digital currency may be used to anonymously transfer illicit funds and provide a vehicle to hide unreported income from the Internal Revenue Service (IRS). Because it is a virtual currency not backed by any government and operating, in most cases, through offshore exchanges, the real issue for domestic investors is that there's no real regulation or standard to be followed; as a result, most regulators have not weighed in on virtual currencies, as jurisdiction over these exchanges is still being determined.

The Alabama Securities Commission is issuing an "early warning" -- because it is aware that citizens of the state are trading in crypto-currencies; Borg noted that if Alabama consumers were having problems getting money out from a brokerage firm or an investment company, the Commission would have acted at the first signs of trouble. As issues surrounding the redemption of Bitcoin have grown, ASC feels the Bitcoin issue can not be ignored by the regulatory community, even if crypto-currency is not the usual territory for state regulators, who view themselves as the securities' world's "cop on the beat."

Borg said, "The validity of Bitcoin is a matter of perception. The risk of using Bitcoin may be off the charts! When using Bitcoin for investing, it is difficult to seek any protection or recourse for losses due to fraudulent schemes."

Borg noted that there is nothing inherently illegal about Bitcoin itself, noting that the real issues seem to arise in the problems some investors have had in turning the virtual currency into real, paper profits. He noted several issues with Mount Gox, but said the warning applies wherever consumers are finding themselves stuck with Bitcoin due to questionable actions by an exchange.

On February 7th, CNET reported that users of Mt.Gox had their currency placed on hold and the exchange suspended all Bitcoin withdrawals from its service. Mt.Gox, considered one of the largest crypto-currency exchanges has experienced severe technical issues which led to the suspension of withdrawals. The prices on this site, arguably the largest Bitcoin trading site, were capped at \$1,000 per Bitcoin and recently the digital currency has fallen to prices as low as \$135. Last year, the US government seized \$2.9 million from the exchange. Recent complaints have surfaced of difficulties in getting money out of the exchange. In addition to complaints concerning inability to withdraw after deposit of Bitcoin, there are significant reported complaints of failure to verify receipt of transfers, locked accounts and stopped trades.

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On February 21, CoinDesk reported that 65% of Mt.Gox users were still awaiting their funds based on a survey response of 1,434 CoinDesk readers, some as long as 3 months.

Other problems with Bitcoin currency include:

- Bitcoin is more a high risk commodity than a currency due to volatility in price fluctuation.
- Not backed by any central banks worldwide and has no tangible value.
- Investors cannot own stock in Bitcoin, it is not incorporated and there is no management. Basically, it is a experimental concept.
- It is unregulated and does not provide protection for consumers.
- Rules and regulations are limited or non-existent in areas of consumer disclosure, capital requirements or framework for legal investing.
- Is often misused for money laundering, tax evasion, drugs, gun-running and financial fraud. This Commission believes that at present the use of Bitcoin (crypto currency) is a very high risk with little or no regulation in place to protect consumers.

“Virtual currencies are still the wild west, a lawless place,” Borg said. “People have to realize what they are getting into and they can’t be so in love with the idea of this new currency that they forget the basics. If their mutual fund company or their bank was delaying withdrawals and asking them to verify basic account information that was set up along with the account, they would be very scared about it. Players in the Bitcoin world don’t seem to be so concerned with these issues in digital currencies as they would with more traditional financial products because they are new, and so, they are more ‘understanding’; I’m not understanding about how great this can be if the basics, like getting your money back in a timely and orderly fashion, aren’t in place.”

The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

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