

Bitcoins

James Fontana

IT 103 Section 009

2/23/2015

Honor Code

"By placing this statement on my webpage, I certify that I have read and understand the GMU Honor Code on <http://oai.gmu.edu/the-mason-honor-code/>. I am fully aware of the following sections of the Honor Code: Extent of the Honor Code, Responsibility of the Student and Penalty. In addition, I have received permission from the copyright holder for any copyrighted material that is displayed on my site. This includes quoting extensive amounts of text, any material copied directly from a web page and graphics/pictures that are copyrighted. This project or subject material has not been used in another class by me or any other student. Finally, I certify that this site is not for commercial purposes, which is a violation of the George Mason Responsible Use of Computing (RUC) Policy posted on http://copyright.gmu.edu/?page_id=301 web site."

Introduction

Bitcoins are a recent form of digital currency created and introduced by programmers around the year 2009. This type of currency is anonymous and thus not issued by any bank or central government or any established form of authority. As per, no form of commission or any additional fee for the money to transact is needed. It is as if you are paying someone in cash to do you a favor, but that person can be on his computer on the other side of the world. Because it is third party controlled and cryptographically limited, bitcoins are often perverted to purchase illegal substances and further support other criminal agendas.

There are currently no buildings or companies founded to regulate bitcoins, leaving little chance for it to advocate and regulate legal or ethically sound activities. However, just because there is currently no form of regulated virtual fiat currency without it being taxed, it does not mean there can't be positive uses for it in the future. In theory Bitcoins or something similar could be innovative and prolific in the near future. As with any newly presented system, someone will always find a hole to exploit for their own benefit, and filling said holes can only be a matter of time.

Security Concerns

Last September one or many unidentified hackers claimed to have seized a number of iCloud photos of famous celebrities including but not limited to Kate Upton, Anna Kendrick, and Jennifer Lawrence. Many nude photos of almost a hundred celebrities were made available to the public and noticed rather quickly throughout a very short period of time. This event was coined by 'the internet' as, "The Fappening," named after revered M Knight Shyamalan's critically acclaimed thriller, "The Happening." The anonymous hacker left the

door open for potential donations for posting said images, which would be paid in Bitcoins.

Within the following morning, the account received over \$120 in bitcoins.

It's nearly impossible to pinpoint who or how many could have been involved in doing this malicious act let alone figuring out where and how the money was divined in the end. Obviously all the leaked pics were most likely not from the same hacker and probably acquired at different times from a variety of different methods and were shelved until they could release it all at once in effort to make the leak more viral. Merely calling this process successful is an understatement. Even with this system inadvertently violating rights of privacy and promoting other crimes, the bitcoin system makes it hard to track even the most conspicuous acts of transaction in order to protect those who use it. "At any given time, between twenty and thirty thousand computers are online making up the network. Every time a transaction is made. If someone tries to spend a Bitcoin twice, the one that occurred first in time is valid, and the second is not." (Turpin)

Legal Issues

Recently, it has been numerously brought up and advised when discussing the legal and legitimate merits of Bitcoins. When discussing the potential threat and fraud of virtual currency, the federal district court has come to terms the Bitcoins are in fact "real money." The reasoning behind this audacious and innovative claim is that due to the fact that Bitcoins have been used to exchange for goods and services and have the ability to be traded for other, more conventional forms of currencies, such as cash or credit and "they are money, and, thus, a contract for the investment of Bitcoins is an "investment contract," and, therefore, a security under federal securities law." (Elwell,Seitzinger) The New York Department of

Financial Services have also stated that they are looking into presenting a proposal to regulate bitcoins. This proposal is said to be finalized and come to a verdict sometime in the first or second quarter of 2015. This ongoing constitutional interpretation that we have no choice but to accept bitcoins as a legitimate currency has inadvertently provided leeway for Ponzi schemes and other criminal violations, because it almost seems that money can literally be created out of thin air from a novice point of view. As the public has witnessed, combining this knowledge of easily acquiring and storing money with the technological knowledge to hack and/or invade one's privacy could result in devastating consequences and opens the door for the common person (in recent cases, celebrities more often) to be a victim to their own phone, computer, etc. If digital currencies become the norm within the decade, there will need to be a long list of rules and regulations to protect one's own security and financial properties from being stolen or manipulated with malicious intentions.

Further Research

For any large corporation, multi conglomerate, or common merchant, the concept of Bitcoins seems like a dream come true. With the lack of having to deal with arbitrary, additional fees to credit card companies for every transaction, it is also impossible to implement refunds and are consequently irreversible. Because of this easily exploited door to fraud and theft, more research and time is needed to explore and understand the legal aspects that are currently applied to digital currency.

The reason one would choose using bitcoins over other digital forms of currency is that the return policy is nonexistent. From a buyers perspective it is a much more simple process and has no need to go through any intermediary process. Because of this lack of an

intermediary there is a very low risk of a collapse, which the government is sadly guilty of. Because it is a global form of virtual currency there is little chance for one's savings to be completely wiped out. However, the fact that bitcoins are untraceable can be looked at as both a benefit and a risk. On one hand the government can't interfere or take their share, but the untraceable feature can make it very easy to carry out criminal acts. Because of its current infamy with providing leeway for crimes there are hardly any places that would accept bitcoins. It is still too early in its lifetime to be used at its fullest potential.

It should be interesting to keep track later down the line in the near future to see if businesses will highly regard the concept of digital currencies and perhaps decide to value this form of payment over more conventional forms of currency. It may even be possible for it to render what we know as the norm to be obsolete in a few decades. As of now, it seems the potential risks far outweigh the benefits, but one can dream of a perfect world where one would have one hundred percent control one's money with the ability to use it anywhere, at any time, without having to cross a border or even leave one's own house. As of now there isn't a company or established branch of authority to trust and regulate Bitcoins, so they are used at the discretion of the individual, who, if he or she is ignorant of how the system works, can be manipulated into exchanging money for false services by an adept programmer with ill intentions.

References

Turpin, J. (2014). Bitcoin: The Economic Case for a Global, Virtual Currency Operating in an Unexplored Legal Framework. *Indiana Journal of Global Legal Studies*, 10(1080-0727), 335-368. Retrieved February 2, 2015, from ProQuest Research Library.

This article provided the meat and potatoes for what I needed to know about bitcoins. I was able to receive a brief introduction of bitcoins along with the legal and ethical issues involved with them. I also agree with Turpin's conclusion that Bitcoins should be considered in the near future after we figure out how to regulate them.

Elwell, C. K., Murphy, M. M., & Seitzinger, M. V. (2013). *Bitcoin: questions, answers, and analysis of legal issues*. Congressional Research Service. Retrieved February 3, 2015 from <https://www.fas.org/sgp/crs/misc/R43339.pdf>.

This source had an interesting take on how the Federal Government and the IRS currently views the legitimacy of digital currencies. It is interesting to know that they are currently examining the policy issues involved in digital currencies and how they will be handled as a result in the near future.

Guttmann, B. (2014). *The Bitcoin Bible Gold Edition: All you need to know about bitcoins and more*. BoD—Books on Demand.

This book came in handy in order to learn the basics of Bitcoins and digital currencies. Initially I was a little confused and perplexed on how it works and why someone would invest time and money into it. The book gives a simple overview and what Bitcoins are, how and what they be used for, and how they came to be in the first place.

Mathews, N. (2015, January 6). The Bitcoin Marketplace and Regulatory Environment: An Overview. *Mondaq Business Briefing*. Retrieved February 10, 2015, from <http://www.highbeam.com/doc/1G1-396357741.html?>

This source gives a good overview of the state of Bitcoins at this time. In the article it describes a number of Bitcoin derivatives in effort to replicate its popularity and benefits without being illegal or unethical. In these derivatives one can trade Bitcoins for something as simple and conventional as cash without tax. The New York Department of Financial Service has proposed the regulation of Bitcoins and is said to come to verdict “early in 2015.”

Bitcoin foundation says currency could be used by legal marijuana industry.. (n.d.) >*The Free Library*. (2014). Retrieved Feb 22 2015 from <http://www.thefreelibrary.com/Bitcoin+foundation+says+currency+could+be+used+by+legal+marijuana...-a0389151900>

Although it may branch onto a whole other topic that I didn't want to get into, I found the title of this article interesting because it proposes bitcoins may be a handy tool for the legal marijuana industry when the majority of people who use bitcoins in the first place are more often than not used to purchase illegal substances. I find it ironic that certain states are looking into this form of currency in order to avoid clashes with the United States government.

