

## VIRTUAL CURRENCY "BITCOIN" – CHALLENGES AND CONTROVERSIES

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### **Abstract**

*In the knowledge society, when there is a rapidly evolving information technology, the virtual markets, namely the online transactions, have created the premises emergence and development of new technologies of using of finances, namely virtual coin (Bitcoin). Use of this coin appears as an alternative to traditional currencies, but they are not under the control of no body, are devoid of inflation and maintain the anonymity of users. Following the evolution of this new type of coin, we proposed in this paper to present some general aspects of this coin focusing on global controversies on using Bitcoin. We have reviewed several myths that have arisen with the development and penetration of its on market and because it is a volatile coin can generate huge gains but and huge losses, we have studied fluctuation and implications for users and investors and the attraction of the drug dealers and criminals for using virtual currency, Bitcoin. At the end of the paper, based on the analysis we have tried to outline the future of this modern payment system. Thus, we found that lately, in that its value has fluctuated strongly, and increased buyer confidence, but appeared and increased cyber attacks, and the fear that if the state has no a role in protecting citizens from fraud, we can assist at the development of financial schemes extremely dangerous. The financial experts believe that if the world banks would jointly solve all the problems, the virtual money will have a real chance of life.*

**Key-words:** *virtual coin, fluctuation, transaction, controversies, financial instrument*

**JEL classifications codes:** *D53, E42, G21*

### **1. Introduction**

In the era of globalization, of the knowledge society, the money world had to adapt continuously, being in continuous transformation. The evolution of information technologies and development of virtual markets have led to the development of a new way to trade in the online environment, faster, secure and all accessible. In this way, palpable cash transactions were replaced first of cards, smartcards, for as in recent years to develop virtual coin, Bitcoin, a modern technology which is expected to have a huge potential in the future business. Digital coin, is not tangible, it is basically a secret number transferred from one part to another, through network software based on public cryptic passwords.

The idea of a digital coin, however is not new, virtual coins are used more time of the fans of video games (World of Warcraft or Second Life), or on online trading platforms (Amazon). The overall objective of using this coin was to support the global economy, the big corporations and the very rich persons to avoid paying taxes. These issues have incited us to a deeper study, and thus in this paper we aimed to highlight some of the controversies arising from using Bitcoin worldwide. For this we analyzed several myths that have emerged with the development and penetration of its market and because it is a volatile currency can generate huge gains and huge losses we have studied fluctuations and implications for users and investors.

Nowadays, people are accustomed keep to shelter their money through banks, while for Bitcoin disappears protection offered by banks, so they are at any moment in danger of being robbed. Nevertheless, the success of virtual coin Bitcoin has inspired a lot of anonymous programmers to create other virtual currencies, and financial experts

believes that if the world banks would jointly solve all the problems, the virtual money will have a real chance of life. Although the developers consider as it one of the most interesting and challenging problems of informatics in recent years, they are both concerned and intrigued by Bitcoin.

New technology has completely changed how to use finance, offering a multitude of options trading, both for individual users as well as investors and governments. At government level, these may be opportunities to reduce costs, simplify processes and closeness to citizens. The new financing systems are not yet ready to replace those now existing, more complex, but their tendency is constantly growing, especially due to the anonymity and low operating costs.

## 2. Bitcoin - pros and cons

Virtual currency Bitcoin is an alternative to traditional coins (supported by a government) because it does not depend on a specific bank or state, is not controlled by any state and is devoid of inflation. In this way, Bitcoins is a digital coin that allows users to transfer capital from some "wallets" virtual, without the use of banks, what you making transactions to be difficult to pursue. The software, hold controls regarding the number of Bitcoins, unlike real money run by banks.

When we refer to Bitcoin, we regard the decentralized electronic payment system for the use of coin and inventory of transactions, which involves open-source software, which involves investing a significant amount (millions of dollars).

Expert opinion was from the beginning both pro and con. Some believe that by making this digital coins, it has released the first global financial network, fully decentralized cryptographic (information is transmitted encrypted) in which is allowed to hold and transfer securities anonymous. Others, however, warn that this coin has all the characteristics of a speculative bubble, especially after Satoshi Nakamoto (Bitcoin creator's name) has disappeared from the internet sphere. Many skeptics, since the advent of the coin, put the question "Why use virtual currency instead of traditional payment instruments?"

Investors attracted to new technology and virtual coins followers, believes there are a number of advantages of using them:

- ensure maximum protection of privacy of individuals; virtual coin holders can retain their anonymity, which is very attractive for investors, given that keeping assets offshore is becoming more dangerous;
- facilitates people's ability to buy of anywhere in the world, regardless of local monetary situation and restrictions;
  - ✓ transactions are cheaper to process and sometimes faster, thus:
  - ✓ taxes on transactions for virtual coin payments tend to be around one percent, compared with the required percentage of credit cards between 2 and 5 percent;
  - ✓ there is no charge for transactions abroad;
  - ✓ because the payments are not made with banks, money transfers from buyer to seller is done in the same day;
- financial data are more secured than when using credit cards;
- the system doesn't allow seizure.

Although Bitcoin market is volatile, which somewhat limits the behavior Bitcoin as coin, more and more users consider it as an exchange coin that is traded instant, on a free market, price is determined by supply-demand ratio.

According to David Jones, analyst at IG Markets, coins Bitcoin give a sense of stability and safety, since they have a limitation in terms of their number, just like gold [1].

The fact that virtual currencies are not subject to regulations, make them very attractive. This, however, can also be a big disadvantage, because hackers can penetrate, abusive, illegal in the system and to generate a lot of Bitcoins. Being a virtual currency is vulnerable to hackers, but coin can not be attacked, but digital wallets in that is virtual money. Even if Bitcoin is only in its infancy and first annual reports showed large increases, economists have not great confidence in the strength of the coin which, they say, in the absence of well-defined rules and clear coverage, is far too unstable and is doomed to end as any other virtual currency so far [2].

This has fueled the controversy regarding digital coin, Bitcoin, being equally pros and cons, of using it as means real money, which led to multiple comments from different categories, economists, journalists, investors and speculators alike.

It is natural that the emergence of this new coin offers the specialists a new area to explore and analyze, with specific controversies. Because the Internet is much erroneous information, it is natural to have a lot of misunderstandings about the virtual currency Bitcoin. We'll try to go over some myths emerged on based using of virtual coin Bitcoin, and we try to shatter:

1. Bitcoin hasn't value - some specialists believe that Bitcoin have no value because it does not have any support (bank, government, etc.). In reality, the value is determined subjectively, acting in a free market, price is dictated by supply and demand, having the value attached to it by users;

2. Bitcoin is established as a broad pyramid schemes. To constitute such a scheme, requires however, of an organization to guarantee investors a profit. But Bitcoin not is palpable, is a virtual currency that does not have a specific regulation, with no one to guarantee a certain profit;
3. Bitcoins is created to conduct illegal activities. As was noticed lately because of unpleasant events related to drug trafficking, use this coin has acquired a bad reputation. But do not must abstracted the use mode of digital currency, should be highlighted and other means of use of coin, and investors which trust this modern means of payment;
4. Direct method of obtaining Bitcoin (mining) is harmful to the environment. This is based on the huge energy use, but comparing the amount of energy used in other industries, this consumption is very small, and thus less harmful to the environment;
5. Impossibility of using Bitcoin coins. The myth developed because it is relatively new, the currency is not widely used in banking. But a simple check on the Internet, it is observed that there are several markets online and offline where you can trade with Bitcoin.

### 3. The implications fluctuation of the coins "Bitcoin"

It can be seen that Bitcoin is a volatile coin that can generate huge gains for those who bet initially on coin appreciation but and massive losses due to fluctuations. Since the first transactions from 2009, Bitcoin has had a relatively stable until 2011, when prices fluctuated heavily between cycles the various appreciation and depreciation, the value of Bitcoin has grown at a fast from \$ 0.30 to \$ 32 after which fell to \$ 2. At the end of 2012, Bitcoin was traded almost \$ 13 before being widely accepted and the speculators to rise the prices.

2011 and 2012 are considered periods of consolidation Bitcoin rate at the end of 2012, Bitcoin was traded almost with \$ 13, before being widely accepted and prices to climb by speculators. Even though had many fluctuations, been strongly affected by every rumor which predicted apocalypse Bitcoin, the virtual currency resisted all attacks and became in 2013 rescue the some Cypriots with digital dexterity, who afraid of domestic banks bankruptcy, and they turned all savings into Bitcoin. Largest coin appreciation came after its entry in the Chinese market. Cyprus crisis has led to double the value of Bitcoin, which has attracted a lot of investors from Spain and Greece, are looking for a safe investment. Another factor which led to increased Bitcoin price has been the massive investment in infrastructure and the involvement of investors from WallStreet, among the most famous being the Winklevoss twins. Also, very high volatility of this coin, leads bankers and brokers to consider them as a speculation likened to gambling. In early April 2013, only two days, virtual coin, Bitcoin depreciated by over 70%, which proved most experts predict, that "the currency issued by private individuals can't increase indefinitely" [3].

Thus, during the Cypriot financial crisis, Bitcoin price soared, reaching a maximum of \$ 266 on April 10, 2013, then plunged to \$ 50 / Bitcoin.

At the beginning of 2013, a Bitcoin cost \$ 20, in just three months and a half, reached the value of 270 dollars, practically observe that appreciated to 1300%, and considering that the early investors were paid five cents for Bitcoin, we realize that profits were astronomical. But note, that after this massive increase, immediately had drastic drop to about \$ 70. I believe that this was possible due to the lack of a regulatory body, and failure against powerful financial flows.

Until in November 2013 was on the market about 12 million Bitcoin, so the new price increased capital Bitcoin on market, reaching 7.2 billion dollars, as of November 23, 2013, to cross the threshold of \$ 10 billion. The highest price of all time of Bitcoin's was on November 29, 2013, when it was valued at \$ 1.242 on Mt. Gox, then fell to \$ 640 after the largest Internet market in China has not accepted deposits. The increase in such proportion Bitcoin's value has generated optimism in the use of digital coin with assumption that in the future will be more widely used. In this regard, in November 2013, the police and security agencies in the United States Senate hearings, emphasized that Bitcoin could be a legitimate means of exchange (the end of 2013, circulated on the Internet over 12 million coins Bitcoin).

The price increase for digital coin was achieved silent with Bitcoins accepting of merchants for any product on the internet. Zynga Inc. is one of the most recent merchants that accept Bitcoins to buy games on the Internet and after saying this, the price for Bitcoin again exceeded \$ 1,000.

Bitcoin's price reached in early January 2014, \$ 1,000 at exchange agency Mt. Gox, based in Japan, which caused Overstock.com to accept Bitcoin as payment method. Overstock's decision (based in Salt Lake City) to accept Bitcoin, as and Zynga interest to test Bitcoin on his platform, contributed to increasing the interest in digital coin, and thus on January 7 the price of on Gox has reached \$ 1041.99. Overstock largest organization which accepted the Bitcoin won \$ 130,000 after the first day of sales, evidenced by 840 orders. This success has led other companies (Newegg, electronics retailer), to accept the Bitcoin soon.

If Bitcoin's acceptance by powerful companies Bitcoin's price increases, the opposite is true, namely, Bitcoin prices plummeting after negative news (the Chinese news from December, when Baidu and China Telecom have ceased to accept Bitcoin).

The price clearly contributes to increased interest from investors strong. In this respect, Fortress Investments planned using some significant funds in transactions with Bitcoin. An interest manifested and the Department of Financial Services of New York, which conducted a hearing on virtual coin policy and even the possibility of issuing some "Bit Licenses" for virtual users of money.

2014 has seen a rise in popularity of virtual currency but a massive fall in the value of them. Bitcoin has recorded spectacular falls, and the decline was not caused by cyber-attacks. Thus, many companies were forced to liquidate their reserves held in virtual currency.

By 2015, any discussion on Bitcoin was contradictory, due to controversies arising its use. But during 2015 Bitcoin position was strengthened, and the voices of skeptics are increasingly less vehement. Analyzing the price evolution (figure 1), we see that on 2015 Bitcoin started with extremely low levels appeared on the virtual collapse of massive currency from 2014 and made a slow increase yet firm.



Figure1. Bitcoin price evolution in 2015 [4]

2015 has meant continued growth in transaction volume and legitimization by a number of leaders (Larry Summers, the head of US Department of the Treasury under the Clinton Administration, and UK Chancellor George Osborne) and financial institutions. Thus, people from different fields (from politicians to musicians) try to find multiple modalities to use this virtual currency.

Bitcoin price at the end of 2015 was \$ 434, much lower than that at the end of 2013, when it was \$ 1.216. But it is important not only the Bitcoin price, but also the number of daily transactions and we see in figure 2 that had reached a record level (over two times higher) in December 2015 compared to December 2014 [5].

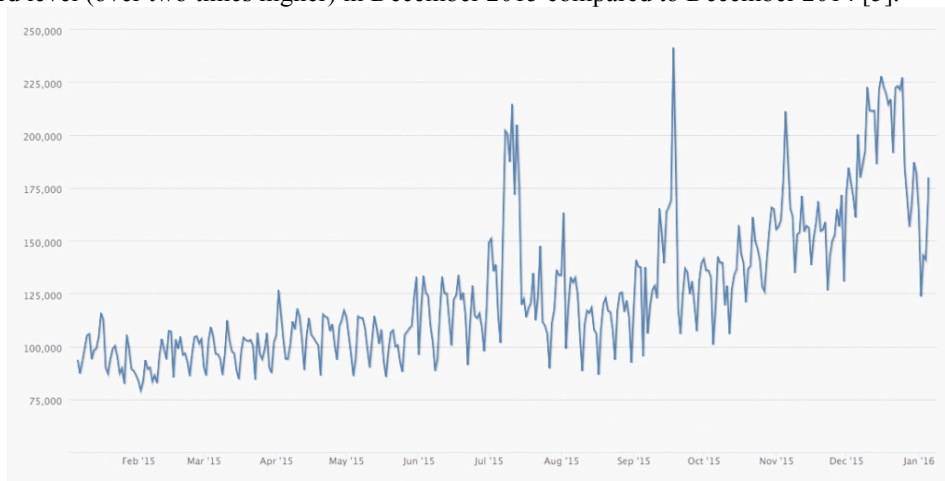


Figure 2. Number of transactions feb.2015-ian.2016 [6]

Adam White, Coinbase vice president, said that in San Francisco, runs the largest Bitcoin exchange in the world (2.8 million Bitcoin) and about 20 percent of his network activities involving payments in Bitcoin and 2016 is projected to importance increase. According to him, 2015 was the year that blockchain moved beyond digital currency, analysts considering that digital money can still change the world. Thus, the beginning of 2016 marks a special attention to Bitcoin because the blockchain support technology is used in reinventing the exchange of shares and

securities. Blockchain is a database running on independent stations, oversees the exchange of Bitcoin, but can monitor and exchange of values (shares, bonds and futures, houses, cars) [5].

The fact that Bitcoin is the most popular way to run blockchain and transactions are growing, will certainly lead to a huge increase in Bitcoin price. Thus, if in 2015 Bitcoin has fared relatively calm, the year 2016 is expected to be more agitated. Specialists consider that the price of Bitcoin in 2016 will mark a significant increase in this sense Daniel Masters, co-founder of Global Advisors, predicts that the price of Bitcoin could rise to \$ 4.400 by the end of 2017 [7].

Bitcoin price prediction for 2016 will depend on how are solved scalability problems and of use of viable Bitcoin platforms to attract the investors.

#### 4. Developers position towards Bitcoin

In general, investors marched to purchase coin Bitcoin, once with the banking crisis in Cyprus (March 2013, when deposits greater than \$ 100,000 would be taxed at about 60%), which led to some fear in the financial markets, but also because central banks interventions on traditional coins.

For serious investors and for the stock exchange players are a professional variant of Bitcoin, SecondMarket platform where Bitcoin transactions are possible, as the input amount of \$ 25,000. Among the big investors are world renowned players as FirstMark Capital, Social + Capital Partnership, Li Ka-shying Foundation and Temasek Holdings.

According to "The Economist" [8], most Bitcoin owners do not spend coins, they are kept in the hope that their value will increase. As the main means of holding these coins (Bitcoin wallet) was preferred for a fairly long time, Coinbase (December 2013 had over 650,000 users), which processes payments in Bitcoin digital coin on behalf of traders. In early 2014 received \$ 25 million by funds from a group of investors led by Andreessen Horowitz.

BitMonet Company was concentrated on building some systems that forbid users to perform micro-transactions internet without paying a subscription, but from 2014 turned to mobile payments. Micropayments could become a big deal for the digital coin Bitcoin, but still there is a deadly micropayment application. Open source projects, such as BitMonet and TipperCoin, promoted the use of digital currency Bitcoin for small payments. Now, more and more profile companies, is oriented to mobile, as the future of payment, and Bitcoin digital coin can play an important role in this change. In this respect, Android, came to support the use of digital currency transactions by including an app that offers open source collaboration with BitMonet Coinbase digital wallet. The two companies have collaborated to create a software development package (SDP), for transactions achieving with Bitcoin in-app on Android, allowing users to send and are to receive digital currency Bitcoin on platform, which will increase the volume of transactions.

The main developer behind BitMonet, Ankur Nandwani, said that due to the use of this package could increase micro transactions in Bitcoin digital coin, especially since being small amounts for payment, does not relevant to the credit card processors due to their tiny charges . Also, application programming interface allows developers to send money after receiving permission from the consumer through a single click, without the need as users to enter Coinbase account whenever they want to make a certain payment [9].

Creators of virtual coins Bitcoin believes that Bitcoin is the currency of large equity holders, doge coin is for crowds on internet, and Coyne West is used to facilitate the use crypto-coin. After you in December 2013, Mel B of the Spice Girls sold her music on Bitcoins, and Snoop Dogg has expressed interest in using virtual coin for future launches. This made as Coyne creators to want to attract world music (from the purchase the virtual tickets to concerts at purchasing music).

Developers are preoccupied and intrigued by Bitcoin, considering it is one of the most interesting and challenging problems in computer science at this moment [10].

Generally people are accustomed to serve to shelter them money through banks, while for Bitcoin disappears the protection offered by banks, so they are at any moment in danger of being robbed. But at the same time Bitcoin is an open source and based on equity, which include the economy, accounting and many other markets, is actually an alternative to the current monetary system. In this way, Bitcoin becomes a challenge for the government, political systems and for companies.

In terms of financial support, the balance of coins increased, reaching 25 million at the beginning of January 2014 and Internet Financial Circle, led by former CEO Jeremy Allaire has a fund of \$ 9 million to establish the payment platform for consumers and sellers. It is estimated that to be successful, Bitcoin has needs of development, more than anything [11].

So, Britain's chief scientific adviser urged the government to adopt blockchains technology to run Bitcoin in various public services. In Japan, began to use Bitcoin in the world of gambling (in the online gaming site Gesoten) for the payment of subscriptions and purchases of games.

Following the survey, it is observed that with increasing interest for Bitcoin grew and skeptics concerns, so Jason Calacanis [12] stated that "is the most dangerous technological project since the advent of the internet".

In this moment we can not know the total amount of virtual money on the market, but it is estimated that Bitcoin would be worth nearly a billion dollars. This makes the states of the world, governments are increasingly

concerned about Bitcoin transactions, in provided that they want to constantly adapt to developments in information technology and communications.

Thus, in the G8 meeting were discussed transactions with digital coins, Bitcoin, these becoming an undeniable presence in the market. Consumers are exposed to significant risks using digital currencies, primarily due to major fluctuations but also because it doesn't benefit from regulations to protect users. Thus, in several US states, is prepared the legislation for Bitcoin, and in October 2015 was established Alliance Blockchain a forum public-private (companies Bitcoin, US and foreign agencies, including the Department of Justice, FBI and the Commission Commodity Futures Trading), which helps to combat criminal activities related to Bitcoin and blockchain. Also, in September 2015 the European Court of Justice declared that Bitcoin transactions will be exempt from consumption tax, which could lead to an increase in the number with virtual currency transactions [13].

Silicon Valley although it is open to innovation, has received with skepticism new technology from the financial sector, Bitcoin, considering that it is difficult to rival the traditional banks. While they agree that digital currency would be the element that would complement the concept of commerce, believes that the digital currency market may develop for the interests not just legal. Thus, the digital coins payments can be made anonymous (like Internet made enable anonymous interactions), which can lead to fraud. However, are enough entrepreneurs which not rule out of using digital exchange, and consider exploring such a payment instrument.

The biggest problem is that Bitcoin users do not know how fast can be processed transactions since block size added in blockchain has grown steadily and so the transaction processing was slowed. It is certain that Bitcoin remains popular, and there is still huge interest in developing of currency and blockchain technologies of data recording.

## 5. Illegal business and Bitcoin

But once with the companies that perform legal activities, were attracted by Bitcoin's use, and drug dealers and criminals that quickly get the taste of money and began to fund their operations using Bitcoin.

According to The Economist [14], digital currencies have gained popularity because they claimed the dubious transactions, and processing fees and administration were lower than normal transactions.

Bitcoin is vulnerable to hacker attacks and can be used in criminal activity and money laundering. Some of the people have no confidence in their national coins, they believes that this digital coin is a really paradise, based on anonymity and protected from inflation. Thus, due to ensuring anonymity, can be purchased without any problems, the prohibited goods (drugs, weapons, etc.), which leads to a natural concern from regulators. In support of Bitcoin coin critics, that these would be used for illegal transactions, came and the arrest of two people in the company New Liberty Standard in January 2014, for buying black market narcotics with Bitcoin on black market and money laundering.

Two computer experts from Israel launched the hypothesis that virtual coin, Bitcoin, was created specifically for black market transactions, they basing on the link between founder anonymous of the coin Bitcoin and the Silk Road online store that sells drugs, weapons and smuggled goods. According to Israeli experts, the link between virtual coin founder and possibly of one of the investors of this illegal business is demonstrated by cashing in the store account 1000 of Bitcoin in January 2009, the month when he appeared Bitcoin as coin. In early 2013, because the amount was too high even for smuggled goods, bought from the Silk Road, the Israelis consider that would actually an investment of the virtual coin founder in online store. On October 1, at arrest of the store manager, U.S. federal authorities have seized nearly 145,000 Bitcoin, which was a part of the store receipts. Thus was recorded the biggest catch of Bitcoin obtained from illegal business by seizing of the Bitcoin wallet of the "Silk Road" market administrator, the equivalent of about 28 million dollars [15].

Through their work, Israeli experts have demonstrated that Bitcoin transactions are not perfectly hidden, but they are able to be traced by the authorities, in the conditions knowing of the certain details about the ones which handling Bitcoins. Supporters of Bitcoin consider this event, as an accident.

Colorado has legalized cannabis, drug addiction is strong, so at least one marijuana dispensary from Colorado, accepted the virtual coin Bitcoin. Because, the federal law forced the pharmacies to accept only cash, Bitcoin has become a tempting alternative.

There are about 350 licensed pharmacies in Colorado, and many analysts believe that the annual income by marijuana may be \$ 500 million the amount is relatively large for a population of 5.2 million people. Nationally, marijuana market regulated by government is expected to double to \$ 2.3 billion, and the state added at income the taxes \$70 million from the sale of cannabis in 2014. In this respect, it is expected that Bitcoin transactions to grow rapidly [16].

The doubtful Business which could be able to trade, have been the reason for the Bitcoin virtual coin came under the attention of the FBI. The Securities and Exchange Commission of the U.S. accused a Texan (Trendon Shavers), which through virtual coin produced a similar fraud of Ponzi scheme. The charge was the fact that he cheated investors with Bitcoin coin in worth 4.5 million dollars, diverting some of the funds raised in their own interest. He sold virtual coins to pay their rent, car expenses, meals, shopping and entertainment at the casino. Shavers promised the people that investing in Bitcoin will increase by 7% per week through some arbitration services that he offers. His

company, Bitcoin Savings & Trust, was originally called First Pirate Savings & Trust. Investors come from Connecticut, Hawaii, Illinois, Louisiana, Massachusetts, North Carolina and Pennsylvania [17].

The Texan, actually defended himself saying that Bitcoin (BTCST) is not really a coin, thus, no exist indictment head. The judge, however, argued that digital coin "is closer, as definition of a precious metal or other valuable resource, than of a dollar or other coin." In this way, the judge gave a favorable verdict of the Bitcoin (July 2013), which was an important step in ascension Bitcoin. However, the Department of Financial Services in New York, the FMI and the Department of Homeland Security conducted an extensive investigation, which has resulted in a hearing in August 2013 of several companies related with Bitcoin. The result was the creation by the U.S. of a set of rules to prevent the use of this currency in money laundering and other illegal activities.

A major problem for security agencies, government and the public is the lately quite frequent terrorist attacks in Europe (attack from Brussels Airport and the Maalbeek metro station came just four months away from attacks in Paris). Terrorist financing put Bitcoin under scrutiny because of the possibility of illegal use of virtual currency by terrorists and by their sympathizers.

Regarding the use of this currency in the purchasing, Russia drew attention the sellers about using Bitcoin in illegal activities, and error to consider it, as coin.

Although virtual, the Bitcoin coin has managed to persuade bankers to take action against it. This was determined by the major risks that may occur in the global financial elite and its potential propagation that is totally out of the big banks centralized, virtual money is hard to follow and can not guarantee the route or origin thereof. Financial elite considers it "is coin which attracts criminal activities, as tax evasion, drug trafficking, terrorism and gambling," which led to the determination of major central banks to close the accounts of the Bitcoin dealers.

## 6. The Bitcoin Risks

After analyzing the digital coin, Bitcoin, we have seen that the value has fluctuated strongly, which had a significant influence about buyer confidence. We noticed that frequent cyber attacks made to increase suspicion, if technological progress will work against people. We can thus say that, although digital money are a reality that we can not ignore, if the state will not attempt through its institutions to play a role in protecting citizens from fraud, it would be possible to develop extremely dangerous financial schemes.

Analysts were skeptical, about spectacular evolution, the Bitcoin currency and their skepticism was fueled of suspending the activity of two of its operators (BitFloor and Bitstamp).

House exchange BitFloor, headquartered in New York (one of the largest markets for Bitcoin Exchange) announced in April 2013, which stops any operation indefinitely, and intend to return the funds the involved [18]. Cessation was due to an attack by hackers in September 2012, who stole 24,000 Bitcoins (the coin was valued at \$ 10.4), which caused a loss of nearly a quarter million dollars.

Although the digital currencies have recently appeared, and at their level the can speak of the mini-crashes in virtual exchange market. Being used in an area where the temptations are great, the information's travels fast and not always verified, with automated participants and often highly emotional, market volatility can often become huge. Crashes on virtual exchange market is characterized by rapidity, and could cause loss of tens of percent in less than an hour, for example, in early February 2014, on one of the stock exchanges where trading virtual currency Bitcoin has lost more than 8/10 from the value [19].

On February 6, 2014, Apple withdrew the app that provides an overview of Bitcoin transactions from its online store. On February 10, one of the "fellowships" large, which provides the virtual coin trading, has suspended withdrawals, a few days after the imposition of limitation, because found ways that the system can be tricked to spend the same amount again. However, on two of the "fellowships", the Bitcoin value had no prices less than 500 USD for 1 Bitcoin, but on one of them reached the minimum was 102 USD. The rebound was very fast, bringing prices in line with those of other comparable sites.

Knowing appetite for automated trading of the virtual coin enthusiasts, a hypothesis emerges clearly: trading robots connect to BTC-E notified pressure selling and went into action. So we can say that the virtual world has its own flash-crash (capital markets had on the 6 May 2010).

In January 2014, Hong Kong's Secretary for Financial Services and the Treasury, Caejer Chan Ka-keung, in a statement, warned the public "that Bitcoin is a highly speculative commodity, which represents many risks." Risks of use and/or possession of Bitcoin are very high because it not has a value within, and tends to have a large fluctuation [20].

The most recent problems occurring on Bitcoin market, we can remember the Mt. Gox firm, which is a currency exchange firm for Bitcoin from Tokyo, Japan. The company was founded in 2009, and from 2010 went into business with Bitcoin, and for a long period had a significant amount. However, February of 2014, meant for the Mt.Gox a dark period, the company frozen the accounts initially for a few days due to some software issues. After this, Mark Karpeles, CEO Mt. Gox, has resigned from the board of Bitcoin Foundation, and all the messages on his Twitter account was deleted. In the following days, the company Mt. Gox has suspended all transactions after that its website has been disconnected. The same day, a blogger calling itself "The Two-Bit Idiot" posted a document showing that the

company became insolvent, by the loss of 744 408 Bitcoin (\$ 383 million) following a robbery that lasted several years. Mark Karpeles said, however, that money has not been lost, just "temporarily unavailable" [21].

Because the Bitcoin business, not any regulation in Japan or Japanese central bank, nor finance ministry can not act.

A study conducted by the largest risk consulting firm in the world, Eurasia Group, Ian Bremmer, a specialist in global risk, says that "ultimately, larger players will enter this market and will eliminate shortcomings Bitcoin "and believes that" will be very surprised if there Bitcoin in ten years " [22].

## 7. Authorities' position from various countries, towards use Bitcoin

The first country to recognize Bitcoin as private coin was Germany in the spring of 2013, when the Ministry of Finance of Germany officially recognized Bitcoin as a financial instrument.

In support of digital currency, Bitcoin, Frank Schaeffler, a member of the German Parliament's finance committee, said that "Bitcoin is the first step in the process of denationalization of money. According to Schaeffler, Bitcoin success will depend on the fair treatment of regulatory authorities and the existence of conditions equal to those of other coins" [2].

The German authorities have achieved regulation of taxation of Bitcoin transactions is considered a financial instrument, which means that the profits obtained by using virtual coin, to be taxed [23].

Kathleen Brooks, director at FOREX.com, believes that accepting digital coin as a financial instrument, it gives legitimacy to use in one of the most developed economies in the world, which prints the big advantage of the Bitcoin movement. Brooks even consider that given that the euro would disappear, the German government could collect taxes, given that people would start using Bitcoin.

Once this financial instrument recognition by Germany, Bitcoin value increased from 80 to 120 dollars, which led to the enrichment of more people overnight, the market is very sensitive, and any news can influence the value. For example, a young Norwegian (Kristopher Koch), concerned about the new technologies, discovered the digital coin, Bitcoin immediately after launch, in 2009, and bought 5,000 units with only 20 euros. He forgot then these coins, and after a few years, when he remembered Bitcoins purchase, found that the 20 euro turned in the amount of 643,000 euros, which materialized in an apartment in the most expensive residential neighborhood in the capital of Norway, purchased with 1,000 Bitcoin.

However, Germany Bank has sent warnings population on the huge risks, which they should assume, who invests in Bitcoin. In this respect, the German government wants to take control of digital currency transactions to follow of Bitcoin transactions in order to prevent terrorist financing [24].

In July 2013, the Central Bank of Thailand said Bitcoin transactions in across the country as illegal, due to the lack of a law to regulate the management of virtual coin. In this way, Bitcoin Co., has suspended her operations in Thailand, but the activity websites was not disturbed. In the situation of ban on the use of the Bitcoin of companies, Thailand was the first country which bans Bitcoin. It prohibited the registration of sites trading this coin at government agencies, which would have enabled its use legally.

Following numerous irregularities discovered at Bitcoin users in the U.S., the state regulated as any transaction that exceeds the equivalent of \$ 10,000 to be declared. Lately, however, the U.S. Treasury has decided to apply of the Bitcoin coin, rules on money laundering. In Canada, Virtex, the online market, which traded Bitcoin, running more than \$ 13 million, was closed, and all virtual markets by Canada was announced of the Bank dealers that "can not collaborate".

Chinese authorities have discovered that people have made massive purchases, despite restrictions on Yuan move out of the country, by buying Bitcoins. China's central bank announced that Chinese financial institutions do not accept deposits from businesses with Bitcoin, by prohibiting of domestic banks to accept foreign exchange currency online. Beijing authorities have announced that Bitcoin not satisfying the conditions to be considered currency and individual investors may trade in virtual coin further on their own risk. Following this announcement, the price Bitcoin relative to the U.S. dollar plummeted 30%, from 1,240 dollars to 870 U.S. dollars. In December 2013, the government banned financial institutions to exchange of Bitcoin and the price of a Bitcoin dropped from \$ 1,200 to less than \$ 500.

On the Business Channel of China Central Television Business of the China's national television station (CCTV2) has achieved a whole campaign to throw a negative light on Bitcoin and its community, comparing Bitcoin with a Ponzi scheme, and focusing only the stories involving people who have suffered financial losses due to investments Bitcoin. The program has also caused some speculation as to whether it could be a precursor for a future government intervention.

Although was an overwhelming portrait of negativity, a ray of optimism managed to shine even from a person who has had a loss in investment, Wang Yizhou, aged 19 years: "Once, no one thought they would be planes but were then. As such planes, will be and Bitcoin, a revolution [25].

Regulators in Hong Kong, along with those from mainland China and the region, attaches the utmost attention Bitcoin phenomenon, to stop any money laundering activities, but also unhindered development of this system. And what is remarkable is that, Honk Kong special administrative region, although it is a part of China, but has not followed



the lead of the continent in terms of reducing Bitcoin transactions. This may be a springboard to adopt Bitcoin and in mainland China, especially since the local regulatory authorities do not introduce stricter measures. At this time in China, it is more difficult to change capital rather than sell Bitcoin currency. The financial system of Hong Kong, although Monetary Authority not identified any local bank engaged in the Bitcoin and none seem to emit products and services related to Bitcoin, supervise closely the development of Bitcoin transactions, for to prevent any disruption in the stability of the financial market.

Amid public warning on currency speculation by Reserve Bank of India, a group of Bitcoin traders in Mumbai has initiated a clarification of the legality of this instrument, considered highly volatile. Bitcoin Alliance from India comprises ten Bitcoins traders, among members which control more than 80% of trade in Bitcoins through four trading platforms. In India it is assumed that there are over 30,000 Bitcoins owners who possess 1% of the 12 million Bitcoins in circulation internationally. After the alarm signal pulled of the Reserve Bank of India, according to which "all virtual transactions, including those with Bitcoins, were irregular instruments of speculation and protected them against potential security risks financial, operational and legal", the volume of market declined massively [26].

Bank of France warned also about the dangers of using Bitcoin, and the European Central Bank and Bank of England have notified that monitors the evolution of the virtual coins. Norway has announced that it will not recognize Bitcoins as legal tender, and Denmark seeks to harmonize consumer protection regulations.

The European Banking Authority (which brings together regulators from the 28 EU countries), has not responsibilities that prohibit virtual coins, but they analyzed and found "should be regulated and supervised." Believes that users expose themselves to significant risks when using digital currencies, examples are the major fluctuations, when they do not have regulations to protect them [27]. In this respect, the European Banking Authority recommends buying digital coins on condition that people can afford to lose them. The warning came just days after China's central bank announced that Chinese financial institutions should not accept deposits from businesses that relate to Bitcoin or to ensure access to this coin within their own services.

European Union following the terrorist attacks wants to bring stricter regulations since June 2016 for both Bitcoin and prepaid cards.

## 8. The future of the virtual coins

After the virtual market developments, the developer's predictions on Bitcoin as a business are optimistic. Thus, GitHub [28] launched the idea taken over from Bitcoin Pulse, according to which the encrypted coin, is a successful for developers. Bitcoin Pulse tries to make a connection between currency Bitcoin and basic services (Coinbase, Coinmap and Github), the investment services (consumer services), and the discussion groups. It also, presents the latest exchange rates on Mt. Gox, BTC China and services such as Bitstamp. Developers are the first to adopt new technology, works with modern devices and most have an account on GitHub, where they post their own projects (open source).

We presented the position of the main countries, in which found the most of the users of Bitcoin, and even find that lost a lot of credibility, it is expected to grow more virtual coins that will support large companies, thus:

- ✓ American Express, created a real currency, Amex, enabling customers to consume more than they could afford;
- ✓ Amazon, one of the most famous online stores in the world, has launched its own virtual currency, "Coins Monday", can be used by users for the Kindle or Amazon stores, to purchase applications and games;
- ✓ Facebook has something like digital coins, or "Facebook Credit".

The success of the virtual coin, Bitcoin has inspired a lot of anonymous programmers to create other virtual currencies. Thus, they created some serious projects funded by hundreds of millions of pounds (Litecoin) but and other with fun character (Dogecoin, Coinye West - "Cryptomoneda for the masses"). The site coinwest.com involves an algorithm based on a scenario that will "lead the fight with Bitcoin."

However, the banknotes and coins will still have long life, "the cash money facilitates corruption and there are many governments in the world which want avoid leaving traces for each transaction on they performing" [29].

Giant of the online commerce, the Amazon.com site, in May 2013 announced the creation of its own virtual coins, for the Kindle Fire tablet owners. Thus, they had in mind from the start, 500 of "Amazon Coins" (the equivalent of five U.S. dollars), being able to buy games and applications on the site [30]. Thus, Amazon hopes to support customers to purchase applications, attracting as many customers as well as developers of applications for as the Amazon Store can rival with Play Store (Google) and App Store (Apple). In this respect, Amazon has created its own store for Android applications, which can be accessed from the Amazon devices, but and own a smart phone with 3D screen TV console. Users can purchase Amazon Coins on site (one dollar for 100 virtual coins, but only multiple of 500 virtual coins), they do not expire and no fees for use. Also, Microsoft provides such an option via the Xbox Live Points.

There were, however analysts (Patrick Moorhead, an analyst at Moor Insights & Strategy), which estimated that the use of such systems can induce confusion among consumers [31].

U.S. bank, JPMorgan Chase, the largest in the world by assets, has applied to the U.S. to obtain a patent for a payment system similar in some ways with the digital currency, Bitcoin. Like Bitcoin, JPMorgan system allow

anonymous users to make electronic payments online, without having to reveal his name, account number or pay fees, show documents submitted to obtain the patent. It provides for the creation of "virtual money" which to be kept in a wallet online, like files used for Bitcoin. The bank method aims also setting up a public register of transactions made using this technology - similar Bitcoin characteristic. Bitcoin critics have pointed out that the action JPMorgan highlights vulnerabilities of the digital currency against imitators. Have already appeared new coins digital, which seeking to improve the aspects of the Bitcoin perceived as deficient. A person informed of the original patent of the JPMorgan said the bank introduced the first time idea of anonymous payments in 2003, and this continued to be discussed internally within the bank. JPMorgan request put in light the race between the major banks, the card operators and companies like Google, Apple and PayPal, all eager to get a bigger profit on the booming market of the online payment services. The active companies traditionally in the financial sector must compete with virtual coins, which some people consider them viable payment alternative systems, able to competing in future major banks and card companies. JPMorgan said the new payment systems will competethe cards as the main way of making online transactions. Some believe, however, that the bank wants to get patent for payment technology that borrows features Bitcoin, until now the most popular digital coin [32].

Russia is preparing a competitor's Bitcoin, which has as basic electronic payment system Yandex DENGHY. According to experts, the virtual money advantage is that the will be officially released after the transparent scheme, i.e. with authorization of a monetary regulator, in this case the Bank of Russia.

Talking about creating a Bitcoin's analog, Gherman Gref said that for such at currencies is need a global regulator. Obtaining it, the virtual money will be protected from volatility. For example, the Bitcoin may be lost in one day to a half its cost. There is no insurance against theft. There have been cases where criminals have managed to empty electronic wallets, worth tens of millions of dollars.

## 9. Conclusions

Although we cann't say exactly who were the creators of Bitcoin, this has gained notoriety in recent years, with the unprecedented development of online transactions. Bitcoin can be traded with keeping the secret identity, paying much lower commission than those paid to pay by credit card or through pay-pal, and can sell anything. So we noticed that the digital currency Bitcoin has an advantage that other traditional currency can not guarantee. Gives users full power over their own finances, which lead to turning it into a "gold mine", and this enhances the interest from strong investors. But alongside companies that legal were operating and were attracted Bitcoin's use, and drug dealers and criminals which quickly get the taste of money and began to fund operations using Bitcoin. Also the terrorists and criminals use all kinds of technology to try to hide their Internet activities and try to use digital currencies to help financing of operations.

We found that virtual currency can be converted into real money, or can be kept in virtual wallets. Because Bitcoin is a volatile currency, by their trading can generate huge gains for those who bet initially appreciation and massive losses due to fluctuations. Thus, consumers are exposed to significant risks by using digital currencies and do not have regulations to protect users.

Following the analysis performed, we noted that in 2015 the price of Bitcoin has experienced slow growth and stable compared to previous years when in the crypto-currency world were a number of unknowns that led to a number of anxieties justified because the currency Bitcoin was new and various problems arose. Stabilization of Bitcoin led to the need that more governments and financial institutions to legitimize it and to support because transaction volume permanent increased. An important role is played by the media that began in 2015 to conduct an open support for virtual coin and technologies specific to it, stressing their importance in trade, public administration and financial institutions which will lead to an increase in credibility. In the Bitcoin evolution was controversies between optimists and skeptics, but from 2015 the debate is more complex and focuses on keeping its currency value and penetration in world financial institutions.

The forecast for 2016 is extremely optimistic, transaction volumes will continue to grow continuously and Bitcoin price will evolve a lot.

Although the virtual currency infrastructure has matured, which gives an incentive to investors, their reaction will be quite hard to predict, because many of the good days of Bitcoin were reactions to crises by Greece, China and Argentina, which means that by After all, it's hard to predict what will happen to the price.

From the study of conducted, we observed that with increasing investor interest for Bitcoin increased and worries and concerns of the world countries, given that they want to constantly adapt to developments from information and communication technology, the trend being cloud networks. Fact that Bitcoin isn't a currency of a particular government, but includes an extensive network of independent computers spread around the world, evolution has been slow due to lack of regulations.

At the beginning of 2016 many regulatory agencies were prepared as soon as possible to provide regulations on Bitcoin and blockchain and handling of coins digital, focusing on businesses providing financial services (MSB's), which is at the intersection of Bitcoin or other digital coins and fiat money.

We believe, however, that acceptance of digital currency as a financial instrument will give legitimacy, which prints a big advantage Bitcoin movement. In general, experts believe that if global banks will find methods to solve with all the problems, the virtual money will have a real chance of life. Indicated would be addressing such financial instruments by clients or prospective clients to achieve only informed after preliminary documentation.

Blockchain alliance will help government agencies understand the benefits of currency and technology specific, and thus will be able to make an approach to regulations to support innovation and growth, so as to be able to develop increasingly more.

Taking into account the factors that come into favor Bitcoin price increase we observe that are more prominent than those that might negatively influence.

Indicated would be addressing such financial instruments by clients or prospective clients to achieve only informed after preliminary documentation.

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