Bitcoin Foundation

Bitcoin for Regulators

Education Committee of the Bitcoin Foundation

An executive summary of how Bitcoin works and how it might interact with existing regulatory structures

Bitcoin is a Computer Protocol:

Bitcoin is a computer protocol (software that lets computers talk to each other) that enables a peer-to-peer digital payment system. The system has no central authority or issuer. There is no "Bitcoin Corp." that administers the system. Instead, individual computers around the world running full versions of the Bitcoin software settle and confirm transactions. In doing so, they create and store in the public record a database of all Bitcoin transactions. Anyone in the world can download the software and instantly send or receive bitcoins in a matter of minutes.

Bitcoin transactions are irreversible, no-fee or very low-fee (a fraction of a penny) and nearly instantaneous.

Bitcoin Interacts with Existing Regulations:

- Bitcoin is not recognized by the U.S. or any foreign government as legal tender.
- Bitcoin is a decentralized, peer-to-peer system where bitcoins are sent directly from one person to another over a network of computers, without requiring a third party money transmitter or bank.
- Bitcoin is not a check, and does not involve any document or writing.
- Bitcoin is not an instrument or device for the payment or transmission of monetary value; like a dollar or a peso, it is itself the monetary value.
- Bitcoin does not obligate any third party to pay its value to its holder; Bitcoin itself is the payment and value.
- Bitcoin is a "push" system, unlike bank accounts and credit cards, which are "pull" systems that can be debited without the owner's knowledge or permission.

- Bitcoin transactions do not require providing any personally identifying information that hackers can steal or marketers can appropriate.

Bitcoin Matters:

At the time of this letter, the value of bitcoins world-wide is in the billions of dollars. Millions of people are using Bitcoin for hundreds of thousands of financial transactions daily.

Governments are Understanding Bitcoin:

Domestically, FinCEN has issued one piece of guidance and published two additional rulings on Bitcoin, which is categorized as a "decentralized convertible virtual currency". The Federal Government Accountability Office has spoken on Bitcoin and released a report on its merits and the challenges it creates for government. A federal court in Texas has ruled that Bitcoin is "money" for the purposes of the Securities Act. Internationally over a dozen foreign governments have issued guidance on the use of Bitcoin.

Bitcoin Myths and Realities:

Myth: Bitcoin is a currency.

Reality: Bitcoin is a computer protocol: a piece of software that lets computers talk to each other. A currency is only one way people can use that computer protocol - just like email is one way to use TCP/IP, the computer protocol that lets computers access the internet.

Myth: Bitcoin is untraceable and anonymous.

Reality: The Bitcoin protocol is identity-neutral. Parties to a bitcoin transaction can require as much or as little identifying information from each other as they like. Even when they require no information, though, the protocol ensures that all transactions are recorded and made available on a public ledger.

Myth: Bitcoin is mostly used by terrorists, money launderers and other criminals

Reality: FinCEN has stated publicly that criminals generally prefer cash, which is untraceable.

Myth: The Bitcoin community is chock full of anarchists, libertarians and other radicals!

Reality: Like any industry, the businessmen therein are as varied as the human race itself. They are of all ages, and range widely in political, social, financial and economic beliefs and practices. They include capitalists, dedicated socialists, and communists. This is a natural result of Bitcoin being a worldwide happening, and people live where ever they live, in many different types of societies.

Myth: The Bitcoin industry is not willing to work with regulators.

Reality: Most business operators welcome certainty in their regulatory environment. The Bitcoin Foundation is committed to a reasonable level of regulatory outreach.

Myth: Bitcoins are so expensive (several hundred dollars each at the time of this writing) that only the wealthy can afford them.

Reality: A unit of bitcoin can currently be subdivided down to 1/100,000,000th, and with a minor modification to the software, even smaller than that. There is no need to transact with an entire bitcoin. Bitcoin is fungible.

Myth: Bitcoin is a Ponzi scheme because bitcoins have no intrinsic value.

Reality: Bitcoins are the first form of money that is also its own payment system. In the singular transaction, the value of that payment system varies by transaction style, size, and geographical distance. In the aggregate of transactions, that value is considerable. Certainly this is a refutation of the "Ponzi scheme" allegation.