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19 Feb 2014 Bitcoin Business



David Shin and his partners set up Ice-Drill to process Bitcoin transactions in Hong Kong

When David Shin and his four partners decided to launch Ice-Drill, a system for processing bitcoin transactions, they turned to crowd-funding, which to their amazement raised US\$2.5 million.

The digital currency has inspired worldwide enthusiasm somewhat akin to the California Gold Rush. Stories abound of speculators profiting massively from the daily fluctuations – on average 7 per cent from July 2010 to August 2013 – in bitcoin exchange rates, according to Radoslav Albrecht of *Bitcoin Magazine*.

But viewing bitcoins and virtual currencies only as short-term investments is short-sighted, according to Mr Shin. The real story, he said, is not about buying and selling bitcoins, but about companies that have sprung up to support such digital currencies.

Bitcoin Crowdfunding

Bitcoin can be transferred between individuals anywhere in the world in about two hours. Bitcoin miners – the intermediaries that facilitate a bitcoin transfer – often take no fees from bitcoin senders. Compare that to banks, which charge about US\$50 in remittance fees. "The amount of efficiency that's created

by getting away from traditional banking for processing business as well as funding business, is tremendous," said Mr Shin. For his next venture, he and his partners are launching Cryptomex, a crowd-funding business similar to the one they used to get Ice-Drill off the ground.

Funding interest for Bitcoin ventures is also keen. Last July, Eddy Travia set up a venture-capital company specialising in bitcoin business. His company, Seedcoin, has already invested in eight Hong Kong-based bitcoin start-ups, and Mr Travia said he has meetings with several new entrepreneurs every week.

Bitcoin, branding and online technology were among the financial innovations explored at the Asian Financial Forum, held last month in Hong Kong

About Hong Kong Trader

Hong Kong Trader targets key decision-makers in business and public life. Each week, the award-winning online publication presents the developments and insights that matter, with a focus on dynamic Hong Kong and the rapidly evolving Chinese mainland. *Hong Kong Trader* also features a customised news section to meet the needs of individual readers.

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Medium of Choice



Eddy Travia set up Seedcoin, a venture-capital company specialising in Bitcoin business

Bitcoin offers dramatic possibilities for traditional trading, which is a cornerstone of Hong Kong's economy. With remittance fees all but gone, and with the advantage of same-day processing of transfers from one Bitcoin user to the other, virtual currencies may become the medium of choice for thousands of SMEs engaged in sourcing, importing and exporting in Hong Kong, as well as traders using it as a marketplace.

Indian start-up that allows users to buy and sell bitcoins through an ATM-like device. Travia would install their second ATM in Hong Kong, the focus tended to be on the users. But traditional companies could also be among the beneficiaries, by allowing them to use the ATM to make and receive Bitcoin payments in real time. As more Bitcoin start-ups are set up in Hong Kong, the greater is the potential for Bitcoin to enter the regular economy.

Bitcoin's Worth

"The value for bitcoins is in the network of the people who accept it," said Zennon Kapron, founder of the Hong Kong-based financial consultancy Kapronasia. "In the future, as acceptance of Bitcoin grows, it will have a valuation of its own, independent of fiat currencies."

Until then, volatility and the lack of clear relative value – how many bitcoins does a Big Mac cost? – have led most merchants to adopt a wait-and-see approach. The ultimate future for Bitcoin is "very binary," said Mr Kapron.

"It will either be tremendously successful, or it will sit on the side and be used by a small percentage of the population. It could be worth tens of thousands of dollars, or it could be worth a hundred dollars, or less," he said.

Hong Kong's Role



Bitcoin: currency of the future?

Hong Kong's bitcoin entrepreneurs, though, are not deterred. At a recent Meetup.com social event in Central, the crowd was open about the chances of Bitcoin failing to pan out. "Whether it's Bitcoin or Litecoin or Peercoin, or a currency that hasn't been invented yet, it doesn't matter. Whatever the successful virtual currency is, we'll just switch to that," said Arthur Hayes, who is developing a futures and options trading platform for Bitcoin.

His one concern, however, is that Hong Kong may not remain a competitive base for business focused around virtual currencies. "So far, the Hong Kong Monetary Authority hasn't laid out any clear guidelines for virtual currencies. Of course, for a market to function, you need regulatory stability," said Mr Hayes.



Zennon Kapron, founder of financial services company Kapronasia, says the jury is still out on Bitcoin

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At the January Asian Financial Forum, Esmond Lee, Executive Director of Financial Infrastructure for the Hong Kong Monetary Authority, reiterated the Authority's position that, for the moment, Bitcoin does not qualify as a currency. He raised chuckles when he asked the panel whether any of them are ready to accept their salary in bitcoins.

"I don't think it qualifies as a medium of exchange," Mr Lee said. "It's a virtual commodity for a sort of bartering."

While no document has been released to this effect, the conversation among regulators in the city is that virtual currencies fall outside the Authority's scope.

But Mr Hayes and the rest of Hong Kong's Bitcoin community are convinced that by not releasing clear regulations on virtual currency, Hong Kong risks losing capital and talent in these crucial early days of virtual currency to other first movers, notably Singapore.

"They could be the first to come out and be very forthright with how they are going to deal with [virtual currencies]," said Mr Hayes. "I think that could foster a lot of business in Hong Kong, if they don't sit on their hands."

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- Kapronasia
- Seedcoin



A growing number of companies around the world are slowly accepting payment in the virtual currency

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