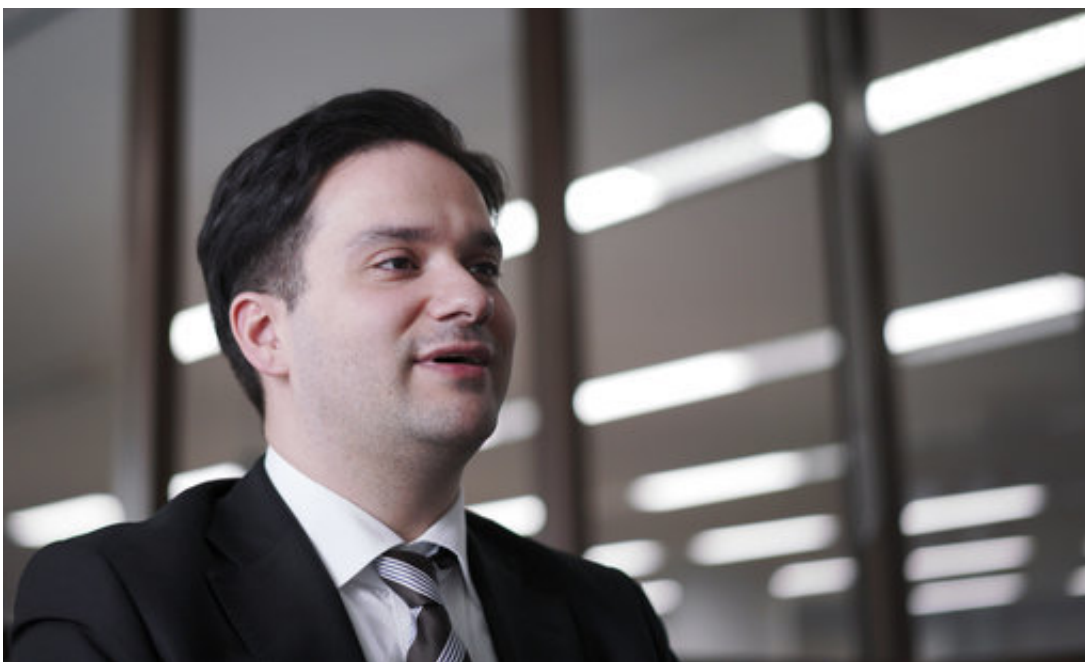


Japan embracing cryptocurrencies despite big theft cases

March 28 2018, by Yuri Kageyama



In this March 15, 2018 photo, Mark Karpeles, the former CEO of Japan-based bitcoin exchange Mt. Gox speaks during an interview in Tokyo. Four years after popular Tokyo-based bitcoin exchange Mt. Gox was hacked and went bankrupt, the case still casts a shadow over the regulatory regime put in place to protect Japan's thriving cryptocurrency market. The former CEO of Mt. Gox, facing a criminal trial in Japan, hopes the remaining bitcoins can be used to pay back losses from the heist at the lost bitcoins' current value.(AP Photo/Eugene Hoshiko)

Four years after popular Tokyo-based bitcoin exchange Mt. Gox was

hacked and went bankrupt, the case still casts a shadow over the regulatory regime put in place to protect Japan's thriving cryptocurrency market.

Mark Karpeles, the French founder and former CEO of Mt. Gox, says he hopes to recoup the millions lost by his customers in the heist. That's now a possibility, given the surge in bitcoin's value in recent years to some 10 times its earlier value.

"What I'm trying to do is to find the best solution," Karpeles said in a recent interview, "because I believe it is my responsibility as CEO of Mt. Gox."

Mt. Gox still had about 200,000 bitcoins left in a separate storage location after 850,000 disappeared in 2014. Those holdings are managed by court-appointed trustees who have sold 35,000 bitcoins, raising 44 billion yen (\$415 million) in cash to reimburse losses from the exchange's failure. Based on today's prices, the remaining bitcoins are worth far more than the estimated \$620 million in earlier losses.

The trustees deny claims that sale triggered a recent slight drop in highly volatile bitcoin prices.

After Mt. Gox collapsed, Karpeles was detained for months before being released on 10 million yen (\$94,000) bail while awaiting the outcome of his trial for embezzlement and data manipulation, charges unrelated to the hack.



In this Feb. 11, 2018 photo, a huge advertisement of Bitcoin is displayed near Shibuya train station in Tokyo. Bitcoin has been a legal form of payment in Japan since April 2017, and a handful of major retailers already accept bitcoin payments. (AP Photo/Shizuo Kambayashi)

Mt. Gox was a wakeup call for Japan, though the relatively strong regulatory regime set up after the bitcoin dealer has not prevented further hacks. Earlier this year the Tokyo-based Coincheck exchange reported a 58-billion yen (\$547 million) loss of a cryptocurrency called NEM due to suspected hacking.

About half the world's bitcoin trading is estimated to be in yen and there are 16 licensed virtual currency exchanges in Japan, where bitcoin owners alone number 2 million to 3 million. That could grow to 10 million this year, said Yuzo Kano, chief executive for BitFlyer, one of Japan's largest licensed cryptocurrency exchanges.

"Japan is now bitcoin's heart, the country that is at the center of its support," said Kano, who helped the government set up its licensing system and other regulations.

Kano heads the Japan Blockchain Association and was recently tapped to head a new organization to beef up regulations, working with the Financial Services Agency.

Financial regulators worldwide are scrambling to catch up with the boom in cryptocurrencies and Japan is treading carefully, seeking to minimize risks while maneuvering to attain global leadership and nurture entrepreneurship in the new financial technology.



In this Feb. 11, 2018 photo, a huge advertisement of Bitcoin is displayed near Shibuya train station in Tokyo. Bitcoin has been a legal form of payment in Japan since April 2017, and a handful of major retailers already accept bitcoin payments.(AP Photo/Shizuo Kambayashi)

Bitcoin has been a legal form of payment in Japan since April 2017, and a handful of major retailers already accept bitcoin payments.

Some governments, such as in China and South Korea, have adopted a more cautious approach, while others, like Switzerland and Canada, are wooing the "miners" whose high-powered computers process the algorithms used to create virtual currency tokens. The U.S. falls somewhere in between.

There have been no arrests for the theft at Coincheck, which has acknowledged that it erred in keeping a stash of the digital money in what's known as a "hot wallet," within reach of hackers. Cybersecurity experts say large amounts of virtual currency should be kept offline, in so-called "cold wallets."

The exchange is reimbursing losses from that heist and strengthening its security.

So far, the cases seem to have done little to discourage Japanese, who have turned to stashing yen at home since banks pay near-zero interest rates, from dabbling in cryptocurrencies.



In this Jan. 26, 2018 photo, Koichiro Wada, left, president of the Tokyo-based Coincheck exchange bows in apology during a press conference in Tokyo. Earlier this year the Tokyo-based Coincheck exchange reported a 58-billion yen (\$547 million) loss of a cryptocurrency called NEM due to suspected hacking. At right is Yusuke Otsuka, the company's chief operating officer. (Takuya Inaba/Kyodo News via AP)

Giant billboards and TV ads sing praise of Bitcoin. The warnings about buying at your own risk come in tiny print. A band called Kasotsuka Shojo, or "[virtual currency](#) girls," in stereotypical housemaid outfits, literally sings praise of bitcoins: "Let's go mining. Dig right there. I'm going to make money to pay my utility bill."

Karpeles is hoping the arrest in July in Greece of a main suspect in the Mt. Gox theft, Alexander Vinnick, will help vanquish any lingering

suspicious that he might have pocketed the missing bitcoins. A California grand jury has indicted Vinnick, a Russian, on allegations he used funds from the Mt. Gox hack for money-laundering, though it's unclear whether he'll be extradited to the U.S. or to Russia.

Karpeles is not overly optimistic about tracking down the missing [bitcoin](#). His lawyers have portrayed the young French man as a convenient scapegoat for Japanese authorities eager to find someone to blame for an embarrassingly massive cybercrime.

He denied any intention of embezzling funds. His defense team has argued that the money and data he is alleged to have handled improperly were used for company operations or actually belonged to him.

Not permitted to leave Japan while still facing trial, Karpeles works at a couple of technology jobs, such as voice-over-internet-protocol and video-game development. Fluent in Japanese after eight years in the country, he appears on YouTube and on a Japanese online streaming video service, offering advice on cryptocurrencies.



In this March 2, 2018 photo, Yuzo Kano, right, chief executive for BitFlyer, one of Japan's largest licensed cryptocurrency exchanges, attends a press conference in Tokyo. Kano heads the Japan Blockchain Association and was recently tapped to head a new organization to beef up regulations, working with the Financial Services Agency. At left is Taizen Okuyama, president of Money Partners. (Junji Yamashita/Kyodo News via AP)

He likens how cryptocurrencies work, and the precariousness of their value, to a game of musical chairs—with about 10,000 people around each chair.

"As long as everyone is dancing, it's fine, but if everyone wants to sit at the same time there won't be enough chairs," he said.



In this Aug. 1, 2015 photo, Japan police arrest Mark Karpeles, the French founder and former CEO of Mt. Gox, in Tokyo. Four years after popular Tokyo-based bitcoin exchange Mt. Gox was hacked and went bankrupt, the case still casts a shadow over the regulatory regime put in place to protect Japan's thriving cryptocurrency market. Karpeles says he hopes to recoup the millions lost by his customers in the heist - now a possibility, given the surge in bitcoin's value in recent years to some 10 times its earlier value. (Kyodo News via AP)



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