The CPA Journal
The Voice of the Profession

The Reality of Virtual Currency

By Yigal Rechtman, CPA, CFE, CITP, CISM

May 2018 Issue, News & Views, Letters to the Editor |
June 2018

I have been following the virtual currency (VC) debate and marketplace for some years now, and would like to share my observations as a person focused on economic realities, as well as my background in fraud investigations and computer science.

Firstly, traditional money is backed up by a faith and credit in a government of some kind. Such a government could, for example, raise taxes to pay back debt. VC is backed up by the belief of participants in a marketplace that will retain its value.

Second, the value of VC is still measured in terms of traditional currency, such as dollars or dinars—hence, VC relies on the conversion to traditional currency.

Third, the history of fraud tells us that price swings in a marketplace are indicative of “pump-and-dump” schemes. Manipulation of the exchange rate from virtual currency to sovereign currency is thus rampant when earlier or larger participants “cash out.” Anonymity and thin trading slices make this scheme even harder to detect in real time.

Fourth, money laundering can make use of the opacity of the VC marketplace and enable non-anonymous players to appear anonymous to everyone else. Thus, a synchronized transaction can mask the laundering; it validates dirty money as a valid transaction.

Finally, as expressed in a previous article in *The CPA Journal*(“Blockchain: The Making of a Simple, Secure Recording Concept,” June 2017, **http://bit.ly/2rdFoJ3**), from a distributed ledger perspective, VC has a systemic flaw: if and when more than 50% of ledger custodians are controlled by a single entity, the underlying blockchain technology fails. This has already happened once, and there is no mathematical or even legal reason that it cannot happen again.

My conclusion: VC is a hope—not a plan—for a reliable currency.

Yigal Rechtman. New York, N.Y.

Printed July 2018