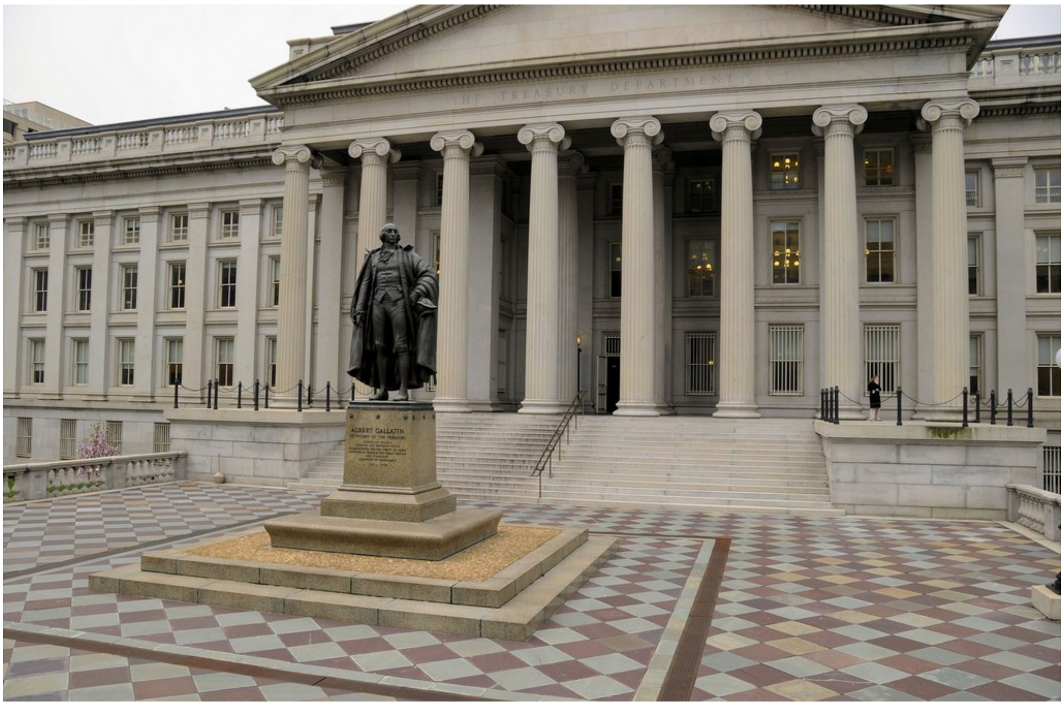
US Regulators warn that Bitcoin and Blockchain tech is a threat to financial stability

by Duncan Riley | Jun 23, 2016 | 0 comments



A group of powerful United States regulators has named Bitcoin and Blockchain technologies as being a threat to financial stability in a new report.

The report (pdf) from the Financial Stability Oversight Council, which includes representatives of the Federal Reserve, the Securities and Exchange Commission (SEC) and the Treasury Department, serves to identify risks and respond to emerging threats to the stability of the U.S. financial system.

A section in the report called "Financial Innovation and Migration of Activities, dedicated to distributed ledger systems, explained that "market participants have limited experience working with distributed ledger systems, and it is possible that operational vulnerabilities associated with such systems may not become apparent until they are deployed at scale."

"Since the set of market participants which makes use of a distributed ledger system may well span regulatory jurisdictions or national boundaries," the report added "a considerable degree of coordination among regulators may be required to effectively identify and address risks associated with distributed ledger systems."

Bitcoin was specifically mentioned, with the report noting that it has experienced "dramatic" increase in transaction failures and trade delays due to the speed of transactions overtaking the rate they are added to the Blockchain.

One example given in terms of threats to both Bitcoin and similar Blockchain systems was the possibility of a **51 percent attack**, a form of attack where someone controlling a majority of network hash rate is able to revise transaction history and prevent new transactions from confirming.

"Although distributed ledger systems are designed to prevent reporting errors or fraud by a single party, some systems may be vulnerable to fraud executed through collusion among a significant fraction of participants in the system," the report claimed.

The report wasn't all doom and gloom, however, with it being argued that digital currencies should be allowed to develop further, however measures should be put in place to regulate their use in financial markets.

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'To the extent that distributed ledger systems ultimately reduce the importance of…more centralized intermediaries, regulators will need to adapt to the changing market structure,' the report noted.

Could be worse

In terms of the broader regulatory environment for Bitcoin and Blockchain-based technologies the report could have been worse.

While the threats of a 51 percent attack are arguably exaggerated, the risks involving Blockchain roll-outs as a replacement to existing forms of financials transaction are real; yes, the Blockchain when implemented properly is a far quicker and cheaper method of making transactions, but it's a reasonable presumption to fear that some people may implement systems incorrectly particularly given that in many industries it is still a new technology and concept.

The fact that the report doesn't call for a ban or heavy restrictions on the development of Bitcoin and Blockchain technologies is a definite positive and a recognition from the highest levels of Government that this technology is here to stay, and even with some risks involved, is where the market is heading.

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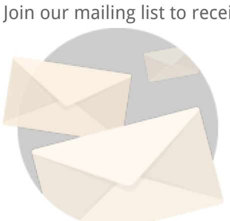

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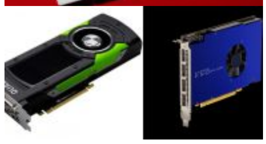

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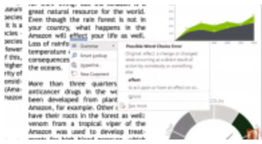

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