

Competition for japanese market



Jesse Powell knew Mt. Gox was not long for this world more than two years before the once-dominant bitcoin exchange went bankrupt in February.

In June 2011, Powell took a last-minute flight to Tokyo to help Mt. Gox recover from a hacking attack. He ran the day-to-day business, drafting press releases, hiring and training staff, while the company's Chief Executive Officer Mark Karpeles focused on reviving the service.

A month after the trip, Powell founded a competitor -- Kraken. It is in talks to offer services in Japan, he said in an interview, declining to give a date.

"It was clear after that hack at Mt. Gox, when they were down for like a week, that the exchange is really the most critical piece of the ecosystem," said Powell, 33, who started dealing with digital currencies more than a decade ago when he set up an online store for virtual swords and armor. "I wanted there to be another one to take its place, if Mt. Gox failed."

When a \$470 million heist finally shuttered Mt. Gox for good in February, San Francisco-based Kraken's user base surged 50 percent in two months, making it one of the top bitcoin exchanges. The company accounts for about half of the virtual currency's daily euro trading, Powell said in a telephone interview on July 29.

Powell is already an industry veteran. In 2001 he founded Lewt, an equivalent of Amazon.com for the virtual potions, runes and amulets used in some computer games -- seven years before bitcoin came into existence.

When he dropped out of California State University, Sacramento, in 2003 to run the company full time, the business environment was similar to that facing Bitcoin entrepreneurs now, he says.

Real Money

So-called real money trading, or sale of in-game items, currency and characters, has been banned by many companies that run massive online multiplayer games.

Square Enix Holdings Co. set up a special task force to punish transgressors in "Final Fantasy XI," while the terms of use for Activision Blizzard Inc.'s "World of Warcraft" explicitly forbid it.

Powell says one of his acquaintances lost about \$100,000 worth of virtual gold overnight after Blizzard suspended his account, leaving the man with no recourse.

Even so, Lewt prospered. It tapped into a latent demand from people that slipped through the cracks of the financial system -- kids, foreigners, those with a bad credit score, he said. The business also gave Powell a nose for opportunities offered by digital currencies as well as the real money to get Kraken started.

"The whole game currency space was very interesting to me, which is how I was able to notice Bitcoin," Powell said. "It has all the benefits of these gaming currencies without that centralized point of weakness. I think it's really the future."

Turning Japanese

Regulatory hurdles and uncertainty still make opening new markets difficult for bitcoin businesses, Powell said. That's why he was back in Japan in May, rubbing shoulders with local legislators and laying the groundwork for the new service. Kraken is one of the founding members of Japan Authority of Digital Asset, together with CoinPass and BitFlyer.

A picture posted on the web shows Powell, with long blond hair, in a T-shirt and a down vest, posing for a photo with black-suited Liberal Democratic Party parliamentarian Mineyuki Fukuda. Another photo shows Fukuda squatting next to a homemade bitcoin mining rig.

"I was really surprised how open-minded Japanese politicians are," Powell said. "Compared to Japan, the United States is in the Dark Ages."

U. S. Hurdles

The start of Kraken's services was set back by half a year when the Financial Crimes Enforcement Network, a bureau of the U. S. Department of the Treasury, issued guidance on virtual currencies in March 2013, Powell said.

The rules made it difficult to get custodial bank accounts to hold customer funds, limiting the company's U. S. services to five states -- South Carolina, Montana, Alabama, New Mexico and Massachusetts, he said.

Kraken got a break when it partnered with Germany's Fidor Bank AG (F5R) in October. Euro trading of virtual currencies, including bitcoin, litecoin and dogecoin, accounts for about 95 percent of the company's volume, Powell

said. The exchange also allows deposits and withdrawals in South Korean won.

“ Most of our launches into a new region depend on getting a banking partner there,” Powell said, declining to name the Japanese counterpart. “ It’s a big expense opening a new region. Whoever goes in first will do all the hard work.”

Competition for a slice of Japan’s virtual currency market is intensifying as new entrants seek to take advantage of the vacuum left by Mt. Gox.

BitFlyer began offering services in April. BitOcean, a Chinese startup, joined with New York-based Atlas ATS Inc. to bid for the assets of the defunct Mt. Gox.

The two companies plan to start a bitcoin platform in the country this month, according to Nan Xiaoning, founder and chief executive officer of BitOcean.