



Economic and Social Council

The question of finding an
international framework for the
regulation of cryptocurrencies

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Table of Contents

- Introduction - 1 -
- Definition of Key Terms..... - 1 -
- General Overview - 1 -
- Major Parties Involved - 4 -
- Timeline of Events - 6 -
- Treaties and Resolutions - 6 -
- Evaluation of the Previous Attempts to Resolve the Issue..... - 6 -
- Possible Solutions - 7 -
- Important Links - 8 -
- Bibliography - 9 -



Introduction

Cryptocurrencies have taken the world by storm, since Bitcoin was created in 2009 by Satoshi Nakamoto, whose identity is still unknown to the general public, they have become of global economic importance. Cryptocurrencies as a concept differ from regular currencies in that they do not have a central bank, nation state or authority to regulate it. Until the boom and bust of Bitcoin in 2017 and 2018, they were not of global significance. After this event Bitcoin, Dash, IOTA, Ethereum and cryptocurrencies in general won the attention of many international onlookers and investors. However, is this a digital revolution of today's times or is it an overrated hype? It is certain that governments have to step up to this next stage of the international economy and create a clear idea of how and if they would like to regulate this modern, global phenomenon.

Definition of Key Terms

Cryptocurrency:

Cryptocurrency is a digital currency which uses block chain technology in order to regulate the generation of the currency, verify the transfer of funds and operate independently of a central bank or organization. They have no physical manifestation, such as coins or bank notes.

Digital Wallet:

The digital wallet is connected to a bank account and stores the keys (long codes), that prove one's ownership of the currency. It is either in the cloud, on computers or in a printed version.



Block Chain:

A technology that every cryptocurrency is based on. They are practically ledgers or public records of every single transaction of the currency. Instead of relying on a single centralized server, the data is copied and shared across thousands of computers worldwide.

Mining:

The process of obtaining cryptocurrency, which requires extreme amounts of energy to complete. This process works by using a mining software to solve an Algorithm. This process is finite, meaning that each currency has a limit on the amount of coins that can be mined, unlike regular currencies, which a government can print at will.

Private key:

A secret code which allows the user to prove the ownership of their cryptocurrency, and is generated by computer algorithms. These keys are stored in the digital wallet (*see page 1*).

Stable Coin:

Cryptocurrencies tend to have a high volatility a stable coin is a crypto coin with low fluctuations, making it attractive for daily transactions.



General Overview

Decentralized networks, meaning there is no higher authority controlling the currency, is one of the main draws of the revolutionary system. The authority within a cryptocurrency is distributed evenly among all those who use it. This makes it more attractive to those skeptical of the typical banking system and government interventions. Specifically, on the dark net, cryptocurrencies are the preferred method of payment. The fact that they are anonymous makes them extremely attractive for illegal online transactions. Cryptocurrencies also have no physical manifestation, meaning they depend fully on the trust of the users.

The process of acquiring cryptocurrencies requires incredible amounts of energy. The mining of the currency Bitcoin alone, requires 14 Terra-watt-hours, as much as the city of Berlin does in one year. Mining requires a mining software, which solves an algorithm on a computer. Considering mining simply requires solving a mathematical problem, one could call this use of energy a waste, and environmentally detrimental.

On the other hand, cryptocurrencies could be seen as a step towards a total digitalization of the monetary world. They have the potential to replace out traditional monetary system and lead us to a system less fraught with human error. Furthermore, cryptocurrencies have a limited nature, which can make them more stable than government backed currencies, which can be devalued by central banks or overprinting the currency. Consequently, cryptocurrencies only follow traditional supply and demand characteristics.

Another positive aspect of cryptocurrencies is the link to other digital inventions such as the progress of artificial intelligence. For example, they could be used for transactions in



autonomous vehicles, without any human presence necessary, such as paying for gas or bridge tolls. However, if things like this are possible, it is also important to control their usage.

Additionally, one could argue that it lies in the interests of governments to support the move towards a fully digitalized monetary system as the currency would remain more stable and there would be less chance of human error. However, government regulation could render the initial objective of cryptocurrencies useless, as their original goal was to be a self-regulated system, with authority resting with the users. In the upcoming conference, it will be up to the member states to decide which direction and goals for cryptocurrencies the international community would like to pursue.

Major Parties Involved

Coinbase

A company that is based in San Francisco and helps with buying, selling, transferring and storing cryptocurrencies. They accounted for one of the leading companies to simplify the purchase of cryptocurrencies for everyday users.

The Silk Road

An illegal, online black market which notoriously difficult to access. Payments are by cryptocurrency, which makes them untraceable. It is a selling point for drugs such as cocaine, heroine and ecstasy.



China

China does not support cryptocurrencies such as bitcoin, and is about to develop it's own cryptocurrency.

Venezuela

Venezuela launched it's own cryptocurrency (Petro) to combat their financial crisis. This currency is backed by oil, meaning the worth of the currency depends on current oil prices. So far, this has not lead to success.

Russia

In the past, Russia has tried to ban Bitcoin, but is now pursuing methods to regulate cryptocurrencies, as well as develop their own.

Japan

Japan is very involved in the development of cryptocurrencies. They are not particularly liberal towards regulation, however they see a great amount of potential in the cryptocurrency market. Japan is planning to introduce a digital currency for the 2020 Tokyo Olympics.



Timeline of Events

| | |
|-------------|--|
| 2008 | Bitcoin and white paper introduced |
| 2009 | First Bitcoin transaction |
| 2001 | Other forms of Cryptocurrencies begin to emerge. |
| 2014 | Microsoft begins allowing users to buy video games with the currency |
| 2015 | Number of bitcoin ATMs rises to 400 (Cryptocurrencies gain popularity) |
| 2016 | Ethereum grows rapidly (Competition for Bitcoin) |
| 2017 | The unit price of Bitcoin rises close to \$20,000 (bubble) |
| 2018 | The unit price of one Bitcoin drops to \$6000 |

Treaties and Resolutions

There is currently a substantial lack of communication and agreement on the topic of cryptocurrencies on the international level.

Evaluation of the Previous Attempts to Resolve the Issue

Owing to the significant modernity of this issue, there is an extreme lack of legislature on the domestic and international level. Multiple countries, such as Taiwan, Egypt and Algeria, have already banned bitcoin for commercial transactions. However, this does not seem to be a viable global solution, as the



popularity of bitcoin and other cryptocurrencies is increasingly growing. The US Treasury Secretary, Steven Mnuchin, is taking the lead on organizing the regulation of Bitcoin within the US, by coordinating multiple government organizations. This has culminated in the creation of a cryptocurrency working group within the Treasury Department's Financial Stability Oversight Council in 2018. One of the main objectives of this body is to ensure cryptocurrencies cannot be used to enable criminal activity.

Possible Solutions

The first step to better regulate and protect users of cryptocurrencies is to improve the overall understanding of cryptocurrencies and how they work . This can be done by providing better access to knowledge and resources on the issue. In order to gain this knowledge governments could set up committees of experts such as economists, bitcoin experts and policy makers to make rational decisions. To better regulate the transactions of cryptocurrencies governments can develop specific systems and methods of how to trace transactions. However, at the same time governments must consider that this goes against the initial idea of cryptocurrencies. In general, governments can introduce measures such as raising public awareness or subsidizing initiative startups in this sector, to let the cryptocurrency market flourish. Additionally, a greater



international dialogue is required for such a global presence of cryptocurrencies, especially when it come to taxation. Tax laws need to be clarified by implementing measures to regulate exchanges, making sure that the flow of transactions is recorded, especially on the international level. Measures need to be found to reduce the rate of criminal activity enabled by the anonymity of cryptocurrency transactions, for example in the drug trade. This is also important to transmit a safe image of cryptocurrencies to the population. One thing is for certain, in order to take advantage of the benefits that cryptocurrencies have to offer and to minimize the effects of incidents that could come from the disadvantages, a framework must be implemented as soon as possible.

Important Links

<https://www.coinbase.com/>

<https://www.un.org/development/desa/dpad/2018/seminar-understanding-bitcoin-blockchains-and-the-crypto-economy/>



<https://www.youtube.com/watch?v=Pr2PzF6ATJ0>

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