Economic and Social Council

Chair Report

Forum: Economic and Social Council

Issue: Addressing the implications of Cryptocurrency on the Global Economy

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Position: Chair

Introduction

Cryptocurrencies, digital or virtual currencies that use cryptography for security, emerged with the creation of Bitcoin in 2009 by an unknown person or group of people using the pseudonym Satoshi Nakamoto. Initially a niche interest, cryptocurrencies have rapidly gained popularity and have become significant players in the global economy. As of 2023, there are thousands of cryptocurrencies in circulation, with a combined market capitalization reaching trillions of dollars.

The rise of cryptocurrencies presents several key challenges. They operate outside traditional financial systems, which can lead to regulatory and oversight difficulties. Additionally, their use in illegal activities, such as money laundering and tax evasion, poses significant risks. The volatility of cryptocurrencies also raises concerns about financial stability and investor protection, as dramatic price swings can lead to substantial financial losses.

Key stakeholders in this issue include national governments, financial institutions, cryptocurrency exchanges, and international regulatory bodies. National governments are tasked with creating regulations to manage the economic impact and potential misuse of cryptocurrencies. Financial institutions are both threatened by and interested in the potential of blockchain technology. Cryptocurrency exchanges play a crucial role in the ecosystem, facilitating the buying and selling of digital currencies. International organizations, such as the International Monetary Fund (IMF) and the Financial Action Task Force (FATF), are involved in coordinating global regulatory efforts.

Definition of Key Terms

Cryptocurrency

A digital or virtual currency that uses cryptography for security and operates independently of a central bank.

Blockchain

A decentralized digital ledger that records all cryptocurrency transactions across a network of computers.

Bitcoin

The first and most widely known cryptocurrency, created in 2009 by an anonymous person or group using the pseudonym Satoshi Nakamoto.

ICO (Initial Coin Offering)

A fundraising mechanism in which new cryptocurrencies sell tokens to early backers in exchange for capital.

Mining

The process by which transactions are verified and added to the blockchain ledger, often involving complex computational puzzles.

Major Countries and Organizations Involved

United States

The United States has a significant influence on the global cryptocurrency market, with many leading exchanges and a substantial user base. Regulatory bodies like the SEC and CFTC are actively involved in creating frameworks for cryptocurrency regulation.

China

China has a complex relationship with cryptocurrencies, having banned cryptocurrency exchanges and ICOs but also promoting the development of its own digital currency, the Digital Yuan.

European Union

The EU is working towards a unified regulatory framework for cryptocurrencies, aiming to protect investors and ensure financial stability across member states.

International Monetary Fund (IMF):

The IMF provides advice and policy recommendations to member countries on how to manage the economic implications of cryptocurrencies.

Financial Action Task Force (FATF):

The FATF sets international standards to prevent money laundering and terrorist financing, including guidelines for regulating cryptocurrencies.

Timeline of Events

Date	Description of Event
January 3, 2009	Bitcoin network goes live with the mining of the genesis block.
2011	Bitcoin reaches parity with the US dollar for the first time.
July 2014	European Banking Authority issues a warning on the risks of cryptocurrencies.
January 2018	Bitcoin reaches its then-all-time high of nearly $20,000.
June 2021	El Salvador becomes the first country to adopt Bitcoin as legal tender.
November 2021	Bitcoin hits an all-time high of approximately $68,000.
2022	Major cryptocurrency crashes, including the collapse of TerraUSD and FTX.

Relevant UN Treaties and Events

1. The Financial Action Task Force (FATF) Guidance: The FATF Guidance on a Risk-Based Approach to Virtual Currencies outlined a series of measures to address the growing risks of cryptocurrency's use in money laundering and the financing of terrorist organizations, drawing attention to the risks of cryptocurrency operating outside of global financial regulatory systems.
2. The United Nations Office on Drugs and Crime (UNODC) Report: This report details the uses of cryptocurrencies in illicit activities. These include commerce on darknet marketplaces, in which illegal drugs including synthetic opioids are bought and sold without government surveillance. The UNODC has further taken measures to train security personnel to address crimes committed via cryptocurrencies.
3. G20 Roadmap for Crypto Asset Regulation: The G20 – a group of high income nations – adopted a plan for the implementation of crypto currency regulation. The plan involved international cooperation (including nations beyond G20 juristiction) in ensuring that cryptocurrencies are not utilized for illicit activites and the global financial system is safeguarded.

Previous Attempts to Solve the Issue

In July of 2014, the European Banking Authority (EBA) issued a warning on the risks of cryptocurrencies and called for a regulatory framework that would empower governments to closely monitor and counteract the illicit use of digital currencies.

In June of 2015, the New York State Department of Financial Services introduced the BitLicense regulatory framework for cryptocurrency businesses. This framework would mandate that all businesses wishing to employ cryptocurrencies must engage in a lengthy application process to obtain a license. This process includes extensive documentation, capital requirements, and application fees.

Possible Solutions

1. Regulatory Frameworks: Establish comprehensive and clear regulatory frameworks at national and international levels to govern cryptocurrency activities. This includes setting standards for exchanges, ICOs, and digital wallets to enhance security and prevent fraud.
2. International Cooperation: Promote international cooperation and coordination among countries to address cross-border challenges posed by cryptocurrencies. This can be facilitated through organizations such as the IMF and FATF to ensure consistent regulatory approaches and information sharing.
3. Financial Literacy Programs: Implement financial literacy programs to educate the public about the risks and benefits of investing in cryptocurrencies. These programs can help investors make informed decisions and reduce the likelihood of financial loss due to volatility.
4. Technological Innovations: Encourage the development of technological innovations that enhance the security and transparency of cryptocurrency transactions. Blockchain technology, in particular, can be leveraged to create more secure and tamper-proof transaction records.
5. Monitoring and Enforcement: Strengthen monitoring and enforcement mechanisms to detect and prevent illicit activities involving cryptocurrencies. This includes enhancing the capabilities of law enforcement agencies and financial regulators to track and investigate suspicious transactions.

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