

Forum (Council, Committee, Assembly): General Assembly 2

Student Officer(s): Se In Lee, HyoJung(Daniel) Yoon, Zoe Chang

[Please consult the GA2 Topic LibGuide for guidance on your research](#)

TOPIC 1: The question of the regulation on Digital Currencies

I. Introduction to the Topic

The use of digital currencies as a means of tenanting money has increased over time. It has been revealed that there are more than 20,000 active cryptocurrencies around the world, contrasting to the mere 7 that had existed back in 2013 ([Exploding Topics](#).) Digital currencies essentially refer to money in its pure “electronic” form, the most famous being the cryptocurrency Bitcoin. They have become commonplace in 130 countries according to the Atlantic Council, due to its many benefits including the allowance of easy monetary transactions and remissions. These currencies, unlike cash and other physical forms of money, use technological rails to transfer money, allowing it to easily transfer and receive it.

Although digital currencies are on the rise with constant improvements being made, certain forms of digital currencies, such as crypto, are banned from 20% of the world’s countries. ([Atlantic Council](#).) This is no surprise as digital currencies, although safer in the process of transaction than physical currencies, pose dangerous threats to both users and governments. Digital money is not only vulnerable to hacking as their conduct occurs in the digital world, but its state of being an uncharted territory for governments and policymakers make it increasingly difficult to track illegal financial flows.

At an international level, digital currencies pose threats to a user’s right to privacy as its digital environment makes it vulnerable to hacking. According to Boston Consulting, intruders in digital transactions can deplete digital currency holdings: both their codes and passwords. When this essential information, which composes the identity of the currency, is lost, recovering its value is almost impossible ([Boston Consulting Group](#).)

Nationally, digital currencies pose a threat to policymakers due to its relative unfamiliarity and increasing difficulty in tracking illegal monetary flows. Unlike physical currencies in which its transaction is limited to the real world, digital currencies, especially virtual currencies, are often unrefined and are remitted through various networks of their own. Therefore, this allows room for illicit activities such as covering up debt obligations or to some extent, tax evasions according to the United Nations ([UN News](#).) Therefore, it is essential that nations collaborate to create solutions for this issue that may, in the future, progress into greater problems.

II. Definition of Key Terms & Concepts

Digital Currency

Digital currencies refer to a pure type of currency in its electronic form which cannot be physically attained ([Investopedia](#).) Although it can be represented through government issued, physical currencies such as dollars, it is unable to be converted into the physical form, thus differing itself from physical currencies. Their qualities of streamlining money offers several advantages, such as making it

beneficial to remit money easily and quickly, as well as decreasing the possibility of fraud that may occur in real-life situations. However, digital currencies pose a threat due to its relative newness and qualities of being composed of countless different networks, thus being vulnerable to financial crimes.

Crypto Currency

Cryptocurrencies are a type of digital currency created by crypt codes. Its qualities of being designed with crypt codes, namely a crypto wrapper, provides extra security to these currencies during transactions. Due to these qualities, they are the most popular form of digital currencies, with its most popular forms being Bitcoin and Ethereum. Subsequently, its market reached 2 trillion US dollars in July, 2021.

Blockchain

Block chains are a type of shared database among all types of digital currencies that is essential to its creation and transactions. Basically, it is a system where you can get an online object of any kind, and if you save it in a blockchain, then it turns into a NFT (non-fungible token) which means that the object now holds its own value that cannot be copied or infringed. This is how cryptocurrencies such as Ethers work: billions of ethereum tokens are saved into a blockchain and holds their respective values, which then is exchanged with physical money such as dollars or euros.

Fiat Currency

Fiat currencies are any currency that is tendered by the government. They are the physically tangible currencies such as dollars or euros, and are used to physically remit money in the real world. Respectively, if one wants to attain digital currency, then they must exchange fiat currency for the crypto currency through a market. Just like the traditional stock market that tenders fiat currency, the market value for crypto currencies fluctuates.

Non-fungible Token (NFT)

NFTs are digital tokens in a blockchain that hold their respective values as currency and thus cannot be infringed. Each object or token that is a NFT holds its individual codes, which then prevents its value from being ruined. For example, if a certain image becomes a NFT with its own financial value, when copies are made of the image, the blockchain is able to detect that all replicas without the certified code in the real image are fake, thus preventing the replica from holding the same value as the actual image. It is rather similar to engraved codes inside dollar bills that help tell apart if the bill is real or fake. Essentially, think of it as a system that prevents digital currencies from losing their value in the digital world, where making fake copies is much easier and more common.

Central Bank Digital Currency (CBDC)

CBDCs are a type of digital currency that the state issues. Like said in their name, these types of digital currencies are issued and regulated by the central bank of a country that offer various advantages. First of all, since CBDCs directly connect the government and its citizens, this makes monetary transactions much more efficient without the need of a physical bank infrastructure to help with its remittance. Furthermore, because CBDCs are regulated by the government, this minimises the concerns

that digital currencies may be abused for illegal purposes since the government is able to track its flow. However, unlike the traditional digital currencies like Bitcoin or Ethereum, CBDCs are able to represent fiat currencies.

III. Key Stakeholders

The Giving Block (Company)

The Giving Block is a company which helps with crypto fundraising and donations for non-profit organisations. Specifically, they provide fundraising education, workshops, and custom strategy plans to help non profits ([The Giving Block](#).) As this company handles the transaction of various cryptocurrencies, it is an essential sector to the issue of how illegal monetary transactions can be easily monitored by the state.

FLETA (Company)

FLETA is a type of blockchain that developed technologies such as the Multi-chain Structure, Block Redesign, Parallel Sharding, Proof-of-Formulation, Level Tree Validation, and Gateway System. These new systems allow the FLETA blockchain to be used with unlimited scalability. Similar to The Giving Block, FLETA's quality of being unlimited raises the concern that the state cannot track financial remittances, and thus may entertain illicit activity on the platform ([Medium](#).)

Government Policies

Government policies in regulating these currencies are a big part of the issue of regulating illicit activity on financial transactions. If the government is unable to track down blockchains and trade markets, then financial fraud will become a more prevalent issue than it was when it occurred with fiat currencies. The current concern is that in the future, due to currencies having their unique networks in trade, the government may no longer be able to control the flow of money.

IV. Key Issues including Background Information

The Volatility of Digital Currencies

There is an ongoing concern on how the lack of intrinsic value in digital currencies raises concern for capricious prices. According to Stephen Poloz, the Governor of the Bank of Canada, "investing in cryptocurrencies is essentially gambling because they have no intrinsic value that one can analyse" ([Hillnote](#).) Although it is true that fiat currencies also do not have intrinsic value because the former is issued and regulated by the government, they do not raise much of a concern. In the case of digital currencies, its value and prices can no longer be regulated by the state thus causing unprecedented price increases. Some like the International Monetary Fund even suggested that the danger of digital currencies could be compared to cases like the tulip mania of the 1600s. The volatility of the value of a currency raises concerns for investors who get loans to invest, and are unable to pay the loan back when the value of the currency suddenly drops. When businesses offered ICOs (initial coin offerings-- similar to

investing in a company through digital currencies,) although they had raised around \$6 billion US dollars in 2017, nearly half of the ICOs had failed within a year.

Illegal Uses

As aforementioned, the fear of digital currencies being used for illegal activities are the main concern for digital currencies. When criminal activity occurred using fiat currencies, it made it easier for governments to regulate the transactions since they regulated the cash. However, since digital currencies are issued by private organisations and occur in block chains, it becomes much more difficult to control its remittances. The anonymity and fast transaction digital currencies provide also make it appealing to individuals engaged in illegal activities such as trade in narcotics, money laundering, and tax evasion, since their digital footprint is much more secure than when transaction occurs in the real world. Moreover, illegal activity does not occur only through private currencies, but even popular currencies such as bitcoin. An estimated 24 million bitcoin market participants use the currency for illegal activity. There was even a case in 2013 in a dark web where illegal goods were traded via bitcoin, although the FBI was able to track the website down.

Improvements

Unlike the aforementioned concerns, claims of the positive uses of digital currencies do persist such as how it could be essential in helping with poverty reduction. The ability of people to have access to financial systems are crucial to poverty reduction. In the status quo where an approximated 1.7 billion adults remain excluded from a formal financial system, the qualities of cryptocurrencies being online might increase financial inclusion since countries will no longer require physical infrastructure for banks.

V. Timeline of Resolutions, Treaties, and Events

Date	Description of event
1995	American cryptographer David Chaum introduces DigiCash, a form of electronic payment and a predecessor to modern digital currencies. What made DigiCash significant was that it was the first untraceable form of currency, sparking the persisting concern on how monetary transactions can no longer be regulated by the government.
2008	The domain Bitcoin.org is created online by an anonymous figure, and soon various individuals involved in the creation of Bitcoin update the website. Those aforementioned are: Satoshi Nakamoto, who updates the website on how to protect a user's privacy during monetary transactions as well as the function of a bitcoin, and Hal Finney, who updated Nakamoto's term "timestamp server" to the commonly known "blockchain."
2011-12	Bitcoin becomes mainstream in society, and companies such as WikiLeaks start accepting Bitcoins as a form of donation replacing the typical payment strategies via VISA, PayPal, or MasterCard.

2013	Ross Ulbricht is arrested by the FBI for operating the Silk Road, a darknet website that sold illegal goods using digital currencies such as Bitcoin. Although he was sentenced to life in prison, he was also speculated to be the identity behind the pseudonym ‘Satoshi Nakamoto,’ the creator of Bitcoin.
2015	Bitcoin’s competitor, Ethereum, was created in July. Due to its broad support for smart contracts, it became mainstream in companies offering ICOs in investment.
2022	In August, the United Nations called for developing countries to curb the use of cryptocurrencies in developing nations. The UN expressed deep concerns on how cryptocurrencies might lead to inflation and illegal activities such as tax evasion.

VI. Possible Challenges & Solutions

The Volatility of Digital Currencies

Although the volatility of digital currencies pose a prevalent issue of its users having to deal with unregulated prices, it is a difficult issue to tackle since its potential to skyrocket in value is what motivates people to accumulate wealth by using them instead of their respective nation’s fiat currencies. Therefore, if the government of developing nations wants to deter its citizens from investing in crypto currencies, it is absolutely necessary for countries who suffer from economic issues to focus on recovering the value of their currency.

Illegal Uses

The fear of illegal activity involving digital currencies derives from the fact that the authority to regulate the value of currencies lays on private developers and companies who work for their own benefits, rather than the government who puts the welfare of the country and its citizens more than anything else. Therefore, it is essential that governments develop their own type of digital currency that retains the advantages of the current digital currencies, such as the ability to transfer money efficiently without difficult and time-consuming processes required. A well-known example of these currencies are CBDCs, which retain the benefits of digital currencies while allowing them to be regulated by the government.

Improvements

This issue isn’t actually much of a persisting problem, rather a potential solution to current world problems the use of digital currencies can remedy. Although it is suggested that digital currencies could provide financial inclusion and thus minimise poverty, the fact that digital currencies are still viewed as a danger in society shows that the advantages are unable to exceed the effects of the dangers. Therefore, if you are a delegate of a nation that advocates for the use of digital currencies, it is crucial that you develop ideas to promote the positives that digital currencies can bring to our society.

VII. Recommendations for Resolution Writing including Research

Delegates are highly recommended to do thorough research on the concept of digital currencies: what it is, how specifically they work, why they are important and what are the problems that persist. When writing resolutions however, because there have been absolutely no cases similar to society's digital currency problem, it will be much more helpful to research not only the problems that they bring, but also its advantages and why they are prevalent in society. Researching their popularity will give delegates a sense of solutions they must create to supply the public with their demands on how they wish to use digital currency.

Delegates of developing nations especially should keep in mind that digital currencies do cause a threat to a nation's monetary sovereignty. Lists of developed countries with friendly measures in Crypto Currencies. First is Germany. Germany considers cryptocurrency neither as a digital currency nor a commodity as they are considered to be private properties, without any subjection to value added tax on sale and purchase. Portugal, Singapore, El Salvador, Belarus, Malaysia, Switzerland, Hong Kong China, Bermuda, etc are also significant countries with digital currency-friendly tax havens.

VIII. Bibliography

- Howarth, Josh. "75+ Incredible Cryptocurrency Statistics (2023)." *Exploding Topics*, 11 October 2023, <https://explodingtopics.com/blog/cryptocurrency-stats>. Accessed 23 December 2023.
- Kronfeller, Bernhard. "Managing Risk for the Next Wave of Digital Currencies." *Boston Consulting Group*, 24 July 2023, <https://www.bcg.com/publications/2023/managing-risk-for-next-wave-of-digital-currencies>. Accessed 23 December 2023.
- MEVerse. "Stakeholders in the Crypto Ecosystem | by MEVerse | MEVerse." *Medium*, 11 May 2020, <https://medium.com/meverse/stakeholders-in-the-crypto-ecosystem-fc16e9a91a10>. Accessed 23 December 2023.
- Staff. "Central Bank Digital Currency Tracker." *Atlantic Council*, <https://www.atlanticcouncil.org/cbdctracker/>. Accessed 23 December 2023.

Stuckey, Brett. "Issues and Concerns Related to Digital Currencies." *HillNotes*, 18 September 2018,

<https://hillnotes.ca/2018/09/18/issues-and-concerns-related-to-digital-currencies/>. Accessed 23 December 2023.

United Nations. "UN trade body calls for halting cryptocurrency rise in developing countries." *UN News*,

10 August 2022, <https://news.un.org/en/story/2022/08/1124362>. Accessed 23 December 2023.

"Non-Cash Asset Fundraising | Fundraise with Crypto & Stock." *The Giving Block*,

<https://thegivingblock.com/fundraising-solution/>. Accessed 23 December 2023.

IX: Additional Resources

Figure 1: Daily Price Volatility of the Bitcoin and the Canadian Dollar, 4 January 2017 to 29 December 2017 (%)

