G20

MetMUNC XLVIII

Topic: Regulation of Cryptocurrencies

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Throughout the last decade, the global community has seen a notable increase in the use of the internet and the capabilities associated with it. Everything from communication to research and even banking has been made accessible through the web. Additionally, online banking, financing, and monetary transactions have been made secure and accessible through cryptocurrency. Cryptocurrency is an internet-based medium of exchange that uses cryptography, the process of securing communication in the presence of third parties known as adversaries[1]. This third party security feature prevents cryptocurrency from being influenced by the government or businesses and corporations. Instead, a disparate network of computers, functioning through complicated codes, controls this process. This also makes it harder for counterfeit cryptocurrency to be a significant issue, due to how specific and specialized the currency is. However, this technology is still young and being developed. In 2009, Bitcoin was the first publicized form of cryptocurrency and since then, as of 2017, there have been over 900 new forms of cryptocurrencies[2]. Yet many of these new developments have not been widely adopted due to the controversy regarding regulation of these

Figure 1: This is the logo for Bitcoin, the world's most known form of cryptocurrency.

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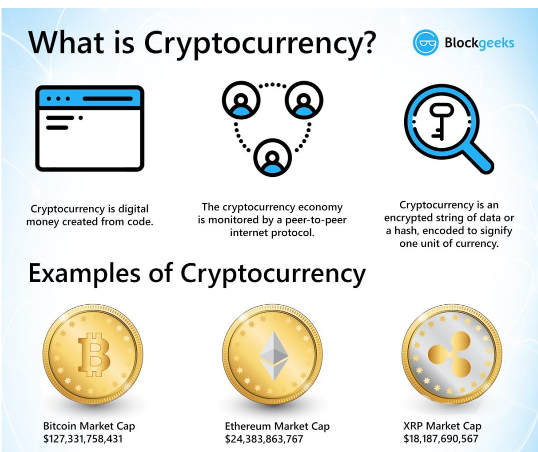
[1] https://blockgeeks.com/guides/what-is-cryptocurrency/
[2] *https://www.investopedia.com/terms/c/cryptocurrency.asp*

companies. Since the main appeal of cryptocurrency is that it is decentralized and cannot be manipulated by private businesses or the government, many wonder who can control it. This is the controversy that delegates will be tasked with addressing for this topic.

When was cryptocurrency first introduced?

The first developments relating to cryptocurrency occurred many years before it was first introduced. In 1980, an American cryptographer named David Chaum created a “blinding algorithm” that allowed for secure and unalterable financial exchanges between parties. This phenomenon was called “blinded money” and Chaum recruited others who were interested in this concept[3]. He founded DigiCash, a for-profit organization that produced units of currency based on the blinding algorithm. However, because it was not decentralized, it was prone to corruption. At around the same time, an accomplished software engineer named Wei Dai published a white paper on B-money, an early form of cryptocurrency that included similar aspects such as complex anonymity protections and decentralization. This would eventually become Bitcoin[4].



In the United States in the late 1990s and early 2000s, the most notable proprietor of virtual currency was a Florida-based company called E-gold. Users would send their undesired

[3] https://www.moneycrashers.com/cryptocurrency-history-bitcoin-alternatives/

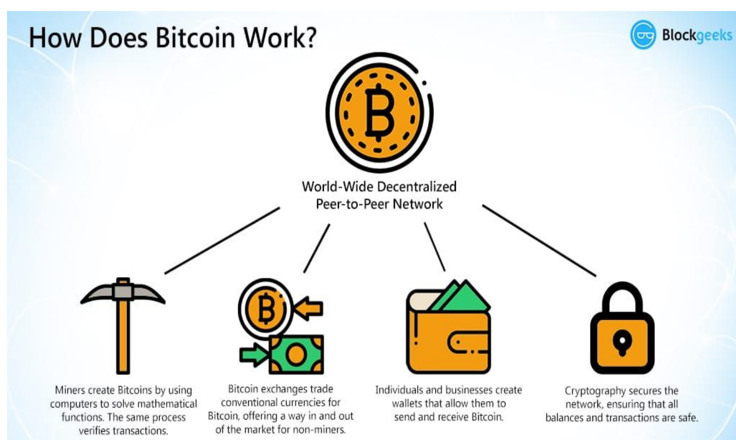
[4] http://blocked.com-default.ws/?oI=13082706499&type=chromium-m&url=forbes.com%2Fsites%2Fbernardmarr%2F2017%2F12%2F06%2Fa-short-history-of-bitcoin-and-crypto-currency-everyone-should-read%2F

gold products such as jewelry or trinkets to the company's warehouse in exchange for digital "E-gold", a unit of currency denoted in ounces of gold. This E-gold could be traded with other users, exchanged for real gold, or cashed in for U.S. dollars. However, due to relaxed security measures, E-gold became a popular target for hackers and phishing scammers. This put its users at financial risk due to the billions of transactions made annually by the company in the mid-2000s. Increasing legal pressure caused the company to cease to exist by 2009[5]. Therefore, cryptocurrency can only remain an effective method of online finances and commerce if its security remains up to par.

How does cryptocurrency function?

All cryptocurrency transactions are regulated by a ledger, or an unalterable collection of entries in a database collection. This enforces mutual cooperation between companies and users since all transactions are transparent and regulated by the same rules. Cryptocurrency is similar to bank credit or debit cards, in that with both a complex system issues currency and records exchanges without the users' input.

However, the difference between bank credit and cryptocurrency is that instead of banks and federal institutions managing the accounts, an algorithm is used instead.



This ledger-regulated system is commonly referred to as blockchain, because many transactions can be added to a ledger at once,

[5] https://blockgeeks.com/guides/what-is-cryptocurrency/

or in “blocks.” When a cryptocurrency transaction is made, it is sent out to all users hosting a copy of the blockchain. Specific types of users called miners then use software to try to solve a cryptographic puzzle, which lets them add a “block” of transactions to the ledger. Users called miners are tasked with running software and hardware aimed at confirming transactions to the digital ledge. Solving cryptographic puzzles (via software) to add transactions to the ledger (the blockchain) in the hope of getting coins as a reward is cryptocurrency mining[6]. This is an important difference between cryptocurrency and credit and debit cards, since users of cryptocurrency can profit off of improving the company’s proper functioning.

However, Bitcoin can be used anonymously to conduct enterprise between account holders. This results in easy access to criminals and thefts around the world. Many countries have decided not to use Bitcoin, since it can be used to purchase illicit drugs and weapons. Regardless, Bitcoin is currently not adequate for a country’s main source of currency since its security features are not fully developed.

What countries use cryptocurrency?

The United States and Canada have taken a generally positive stance toward Bitcoin, while objecting to the use of this technology for illegal transactions. In order to legally recognize cryptocurrencies, world superpowers such as these two countries have classified Bitcoin and other mediums in a way that allows pre existing laws to be applicable for regulation and the prevention of money laundering. In Mexico, cryptocurrency is very widely regulated but is allowed to be used as a means of private payment. Australia considers Bitcoin a currency like

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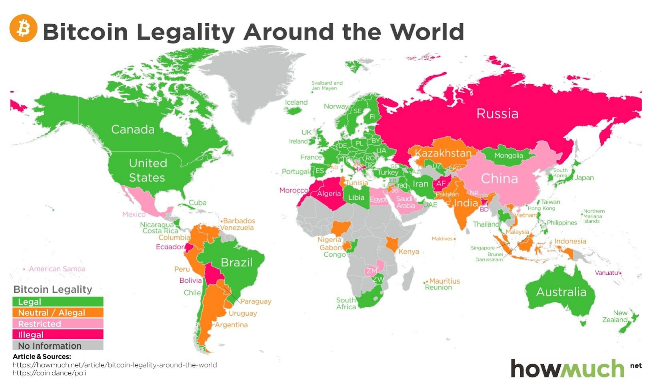
[6] https://cryptocurrencyfacts.com/how-does-cryptocurrency-work-for-beginners/

any other and allows entities to trade, mine, or buy it. However, these countries that allow the use of Bitcoin and other cryptocurrencies have placed strict regulations on it to prevent hacking and promote security. For example, in Asia, countries such as Japan have classified Bitcoin in legal terms, similar to Canada and the United States, and have therefore placed legal restrictions on it[7].

Though the European Union (EU) has followed developments in cryptocurrency, it has not issued any official decision on legality, acceptance or regulation. In the absence of central guidance, individual EU countries have developed their own stances on Bitcoin. Finland and Belgium both do not tax Bitcoin and other cryptocurrencies and it is otherwise unregulated. This same lack of regulation can be seen in countries such as Cyprus and other Middle Eastern countries. Germany and other developed European countries are open to Bitcoin, where it is considered legal but taxed differently depending upon whether the authorities are dealing with exchanges, miners (entities who obtain Bitcoin without paying for it), enterprises, or users.



Alternatively, Bitcoin and other cryptocurrencies are essentially banned in China, where all banks and other financial institutions like payment processors, are prohibited from transacting or dealing in Bitcoin. Similarly, Bitcoin is not regulated in Russia or Vietnam, though its use as payment for goods or services is illegal. In South America, Brazil does not regulate cryptocurrency but they discourage it due to the risks associated with it. Bitcoin is also not

[7] https://www.investopedia.com/articles/forex/041515/countries-where-bitcoin-legal-illegal.asp

considered a legal form of currency in Argentina, and is banned in Latin American countries such as Bolivia, Columbia, and Ecuador. [8]

Summary

Cryptocurrency is a rapidly spreading development in the economic market of the 21st century. Due to blockchain security, and anonymous third party regulators, cryptocurrency has been seen to be a safe online financial opportunity. However, due to its young nature, its security measures are still developing as seen by recent hackings of Bitcoin, the most well known form of cryptocurrency across the world. In this committee, delegates will debate the best way to regulate this currency and enact legal policies and security measures necessary for the development of cryptocurrency across the international community.

Questions to Consider:

1. To what extent does your country regulate the use of cryptocurrency and how has that affected its popularity?
2. How have local businesses and companies in your country accepted or rejected the use of cryptocurrency?
3. What do your country's policy makers believe should be done on an international level to regulate cryptocurrency?
4. How has the general population in your country adopted cryptocurrency and does it rival cash or credit/debit card transactions?

[8] https://www.investopedia.com/articles/forex/041515/countries-where-bitcoin-legal-illegal.asp

5. How does your country believe that cryptocurrency can be spread and made safer for all of its users?

Helpful Links:

- https://www.investopedia.com/articles/forex/041515/countries-where-bitcoin-legal-illegal.asp
- https://www.moneycrashers.com/cryptocurrency-history-bitcoin-alternatives/
- https://cryptocurrencyfacts.com/how-does-cryptocurrency-work-for-beginners/
- https://www.genesis-mining.com/how-cryptocurrency-works
- https://www.investopedia.com/articles/forex/041515/countries-where-bitcoin-legal-illegal.asp
- https://www.investopedia.com/terms/c/cryptocurrency.asp