

# BratMUN

STUDY GUIDE

ECOFIN 2018

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## Letter from the chairpersons

Dear Delegates,

My name is Daniel Hettych and my co-chair will be Tomáš Ježo, and we are glad to welcome you to the Economic and Financial Committee at the BratMUN 2018. We are excited to be your chairs as we prepare to discuss the topic of cryptocurrencies and their regulations. It is a topic, which clearly affects global trade and finance and its resolution is crucial to maintain the ECOFIN goals.

We are both a second year IB students at Gymnázium Jura Hronca in Bratislava. The school, which founded the BratMUN conference and is organizing it yearly ever since. We had the pleasure to help as an Under Chair or as a Delegation Guide. Tomas has further enriched his knowledge and experience at the BiMUN in Budapest, being a delegate at the IAEA committee (International Atomic Energy Agency) for the United States of America. We both love Bratislava and are eager to show it to you, if you please.

We are looking forward to spending time with you, discussing and enjoying the topic and essence of the ECOFIN committee. In case of any questions or concerns, feel free to contact us!

**Moreover, please note that the delegates are expected to send a position paper approximately in the length of 400 to 600 words no later than November 2<sup>nd</sup> to the email address [ecofin.bratmun18@gmail.com](mailto:ecofin.bratmun18@gmail.com). It should typically contain four sections: Background of Topic, Past International Actions, Country Policy, and Possible Solutions.**

Yours truly,

Tomas Ježo and Daniel Hettych

*Chairpersons of the Economic and Financial Committee*

## Economic and Financial Committee (Second Committee)

The Economic and Financial Committee is the Second Committee of the General Assembly. In this committee, countries deal with economic and financial issues in the global community. This committee was officially created in 1945 and first met in San Francisco on April 25th, 1945. ECOFIN is open to all UN member states and follows the same parliamentary procedures as any other main organ; hence, a total of 193 nations are represented in ECOFIN.

The main goal of the ECOFIN committee is to strengthen the impact on poverty and employment through providing ideas for the redesign of policies. Moreover, the committee pays focus on promoting structural changes that lead to more suitable future for us all. ECOFIN's mandate includes discussions relating to economic growth and development (including international trade, international financial system, external debt sustainability and commodities), financing for development, sustainable development, human settlements, poverty eradication, globalisation and interdependence, operational activities for development, and information and communication technologies for development. Therefore, resolutions passed in the ECOFIN committee hold immense importance in the international community.

Delegates must find the balance between the intersection of economics, international relations and politics, if they desire to achieve their goals and to fulfil the goals of the ECOFIN committee.

## Topic Description

Cryptocurrencies are an issue of global debate. Throughout the recent years, their increasing values have significantly affected economic markets. No directives concerning virtual currencies had been put in place until recently when various countries, including China, issued regulations on a national scale. The issuance of such laws affects the nature and value of cryptocurrencies and hence the national economy. The BratMUN 2018 Economic and Financial committee will aim at putting forward a plan on a further dealing with the problem of cryptocurrencies.



## What is cryptocurrency?

Cryptocurrencies (Bitcoin as the first) were created by an individual under the name Satoshi Nakamoto, who wanted to redesign the world's current currency system. He desired to create an electronic payment system and a currency that were independent of central authorities and could be easily transferred electronically, in addition, with minimal fees. Instead of trusting financial institutions, the electronic exchange system used cryptography as security. The core structure of this system (or the structure of Bitcoin) revolves around a mechanism called the blockchain. Simply, it is a public ledger or history of all confirmed transactions between two users, virtual wallets. Records of the transactions of Bitcoin are secured using digital signatures that ensure that the transaction was not modified by a third party.



### What is Cryptocurrency?



Cryptocurrency is a digital money, created from code.



Free of all governmental oversight, The cryptocurrency economy is monitored by a peer-to-peer internet protocol .



Cryptocurrency is an encrypted string of data or a hash, encoded to signify one unit of currency

### Examples of Cryptocurrency



Bitcoin Market Cap  
\$11,322,347,786



Ethereum Market Cap  
\$928,068,434



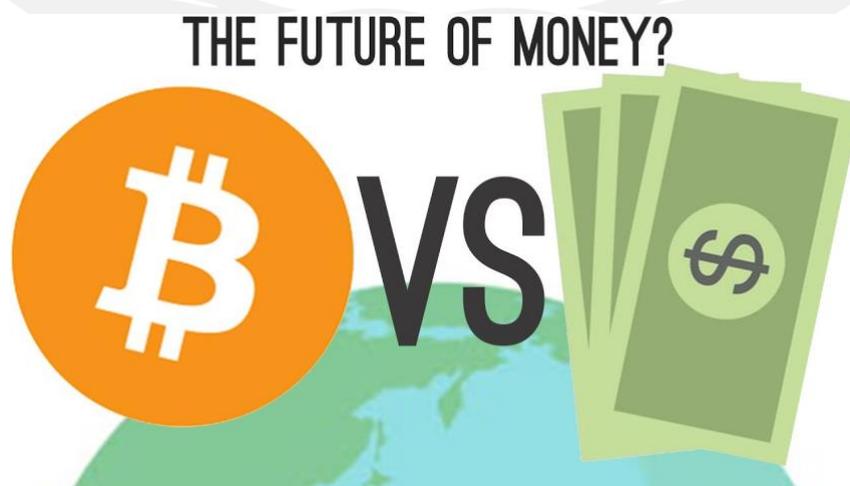
Ripple Market Cap  
\$293,888,278

Even though Bitcoin is the most popular cryptocurrency, there are also other, which are built on the same concepts, promoting anonymity, such as the Ethereum. It uses cryptography as

security as well, however, the structure is different from Bitcoin, due to the usage of Initial Coin Offerings (ICO). ICO's are similar in core to the popular Initial Public Offerings (IPO), which is when a company changes the ownership from private to public and therefore sells its stock in order to raise the capital. ICOs sell a new cryptocurrency with a hope that it will gain prominence and eventually a rise in the value of a firm. The key difference between these two is the amount of regulation. While IPOs are strictly monitored, regulated and secured, ICOs lack the regulation mostly.

### a) History

Cryptocurrencies have recorded a significant increase in their value for the time period of the last year, due to which its global awareness rose greatly. Cryptocurrencies, such as Bitcoin, Ethereum, Ripple, Monero, Litecoin and many other have managed to grow its value exponentially from week to week, which made many economists and financial experts speculate about the true value of these digital currencies. It is not just the fluctuating value that concerns many but the fact that these cryptocurrencies are unstable and decentralized, which makes them extremely challenging to regulate. Even though many financial experts warn us about the price volatility and uncertainty in terms of cryptocurrencies, an increasing number of investors undertake this risk to invest, in order to maximise their profits. The vision of success and wealth has spread globally, became mainstream even for regular people, which has made them potential customers. With such global impact, the international community has to address the more and more important questions of reliability, accessibility and regulation.



Back in 2008, the first decentralised cryptocurrency system, the Bitcoin, which had the potential to disrupt the traditional banking model for businesses and consumer alike, was released. It used peer-to-peer network to prevent double spending. Even though there have been other digital currencies developed well before Bitcoin, it was the first publicly used means of exchange, which combined decentralised control, user anonymity, built-in scarcity and a record-keeping system via a blockchain. Decentralised control over cryptocurrencies means that it uses the same principle as a Peer-to-Peer network for file sharing. Cryptocurrencies prohibit fraudulent actions from happening, such as paying more than once, due to a network that holds the history of all transactions, called the "blockchain". Once a transaction is confirmed, it is no longer forgeable or reversible.

### b) Attributes

Apart from the high volatility and fluctuations, in the past few years 5 main attributes have been established.

Firstly, when using bitcoin, transactions are irreversible, meaning that there are no collateral once the transactions are confirmed. This makes bitcoin really risky, since once the transaction is complete, it will be very difficult to recover a loss from e.g. hacking or mistaken transaction.

Secondly, transactions are anonymous, making it really difficult to track down. Bitcoins are received from an address consisting of 30-character codes which are not connected to your real-world identity. Thus, cryptocurrencies are so often used in dark web for trading weapons, drugs and also why they are so hard to regulate.

While the latter two aspects are seemingly disadvantageous, cryptocurrencies offer also major advantages. Trades can be made in matter of seconds which makes them fast and combined with their ability to cross borders easily also global. Moreover, there are no barriers to entry, all that is needed is a software, thus permissionless. Lastly, cryptocurrency funds are hidden using a cryptography system, which classifies rendering cryptocurrencies as one of the most secure means of trade.

### c) Advantages

Cryptocurrencies are not an exception when it comes to development, and as they develop further, they become scarcer. Thus, as they are becoming scarcer, and their total amount is controlled by issuers, they are becoming more similar to precious metal rather than fiat currencies. Consequently, being a safer option when it comes to inflation.

Furthermore, cryptocurrencies keep it going by themselves. Meaning, that miners keep track of all the transactions. By doing so, they also take care of transaction confirmations and their encryption, thus making these transactions secure. Since they are rewarded bitcoin for doing their job, they form a mechanism which makes the system going and secure.

Moreover, due to the lack of government control, cryptocurrencies are attractive for investors. This happens because cryptocurrencies operate outside governmental control, thus governments could not execute financial retribution on individuals (freezing their assets).

Naturally, there are other advantages of cryptocurrencies, such as lower international transaction costs and elimination of transaction fees from traditional electronic trades and cryptocurrencies are currently one of the fastest ways to trade.

### d) Disadvantages

Cryptocurrencies also have few drawbacks such as a tendency towards illegal trade, price volatility, difficulties in converting back to fiat currencies of tax evasion.

Cryptocurrencies are often owned by a few people, mostly friends and family of the creator. This makes the currency volatile and easy to manipulate. A great example is the case of Silk Road, and how easily can there be drastic price changes.

Moreover, since cryptocurrencies have high anonymity, they can be used in illegal trade and the black market. Mainly since governments cannot trace the payer and the receiver, it is almost impossible to serve them justice.

Lastly, tax evasion is much easier with cryptocurrencies. As it has been already mentioned, there are no safety nets while trading with cryptocurrencies and once a

transaction has been confirmed in the blockchain, it becomes irreversible. Thus, creating a window for frauds or embezzlements which are then unlikely to recover.

## Current situation

Cryptocurrencies have undertaken quite a journey since their arrival. The total number bitcoins, as the largest digital cryptocurrency, is currently valued, with 17 million Bitcoins in circulation, at approximately USD \$120 billion, which is almost twice the value that it reached a year ago.

As the value of cryptocurrencies started to increase, some people around the world started selling their houses and investing everything they got to cryptocurrencies. However, due to its volatility, oftentimes after a period of high earnings came bankruptcy. Moreover, since cryptocurrencies are anonymous, there happened to be an incline towards scams. Consequently, people who invested everything they got into cryptocurrencies, and got scammed lost all their savings.

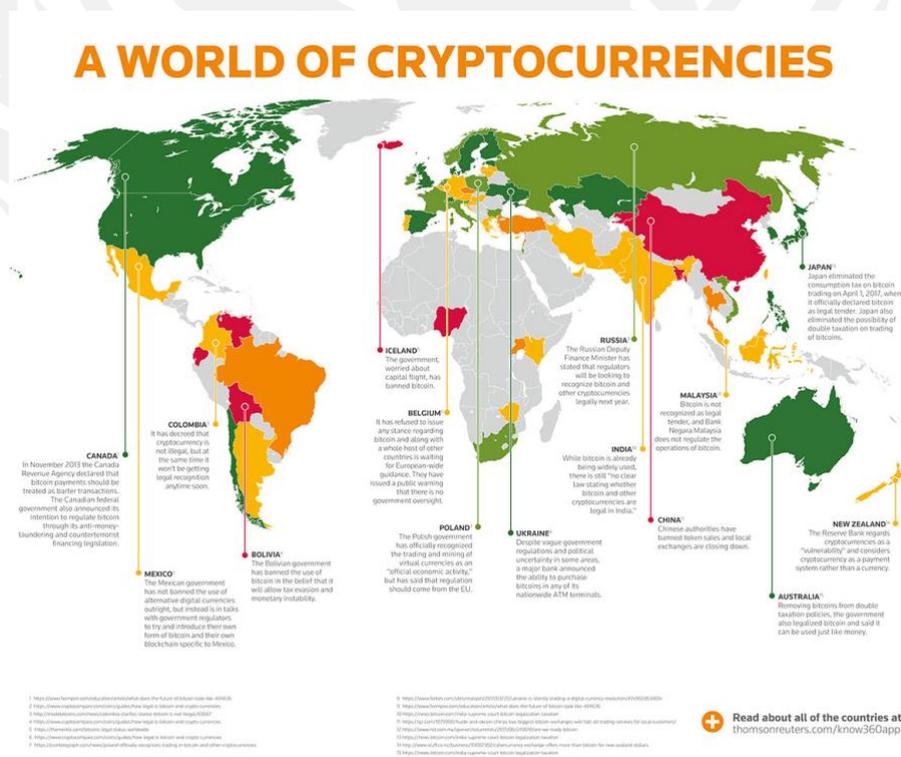
Recently, bitcoin future has been announced by CME Group. It is a USD cash settled contract based on BRR reference rate and it serves as a reference rate of US price / bitcoin.

There has been happening a lot in the recent months, Venezuelan government wants to utilize bitcoin trading, new security tokens have been created and there was a 51% attack on Verge. We encourage all of you to go through these issues.

## Ongoing policies in various countries

Opinion towards cryptocurrencies differs from country to country. Some may hold a neutral attitude, with no exact opinion, while others are actively working on regulations. Japan, as the most notable leader in the fight for cryptocurrencies, has passed a law accepting Bitcoin as a legal tender. On the other hand, Bangladesh is an example of a country, where anybody caught using the digital currency could be sent to prison under the strict anti-money-laundering laws.

Whatever the case in particular countries, the growth in cryptocurrencies in the last decade has shown that there is undoubtedly a strong momentum around this new technology. Restricting cryptocurrencies and implementing regulations is not an easy task to take. Cryptocurrencies operate digitally and while limiting the internet usage is complicated, governments try to minimize the connection of virtual cryptocurrencies with reality. For instance, by restricting the trade to actual currencies and regulating how banks act towards cryptocurrencies. This way, governments could separate cryptocurrencies from their economies, minimizing the access people have to them. Here is a glimpse of the largest players in the area of virtual currencies, which may help the ECOFIN committee find the best response on ongoing trends.



## a) China

Back in 2013, China's Central Bank banned financial institutions from partaking in virtual currency and Bitcoin transactions. However, individuals are free to trade as they wish and therefore Chinese yuan to Bitcoin is the most traded daily fiat to Bitcoin pair. Even though being the global hub for virtual currency miners, China threatens to oust the industry of cryptocurrencies after banning the ICOs. They also intend to block the access to online platforms. Backed by the central bank, China works on creating its own government-backed cryptocurrency.

## b) Japan

**April 1, 2017** – Japan has eliminated the consumption tax on Bitcoin trading by declaring Bitcoin as a legal tender (they also eliminated the possibility of double taxation). Japan has shown a positive attitude towards blockchain. This can be seen because the fourth largest bank in the world, Mitsubishi UFJ Financial Group (MUFG), is planning on opening a crypto desk for its retail and institutional investors. MUFG, will also introduce a stablecoin, which is supposed to be tied to the Japanese yen. This move should reduce volatility and create lower fees, and it is seen as a possibility for the Japanese to disaccustom from the old yen.

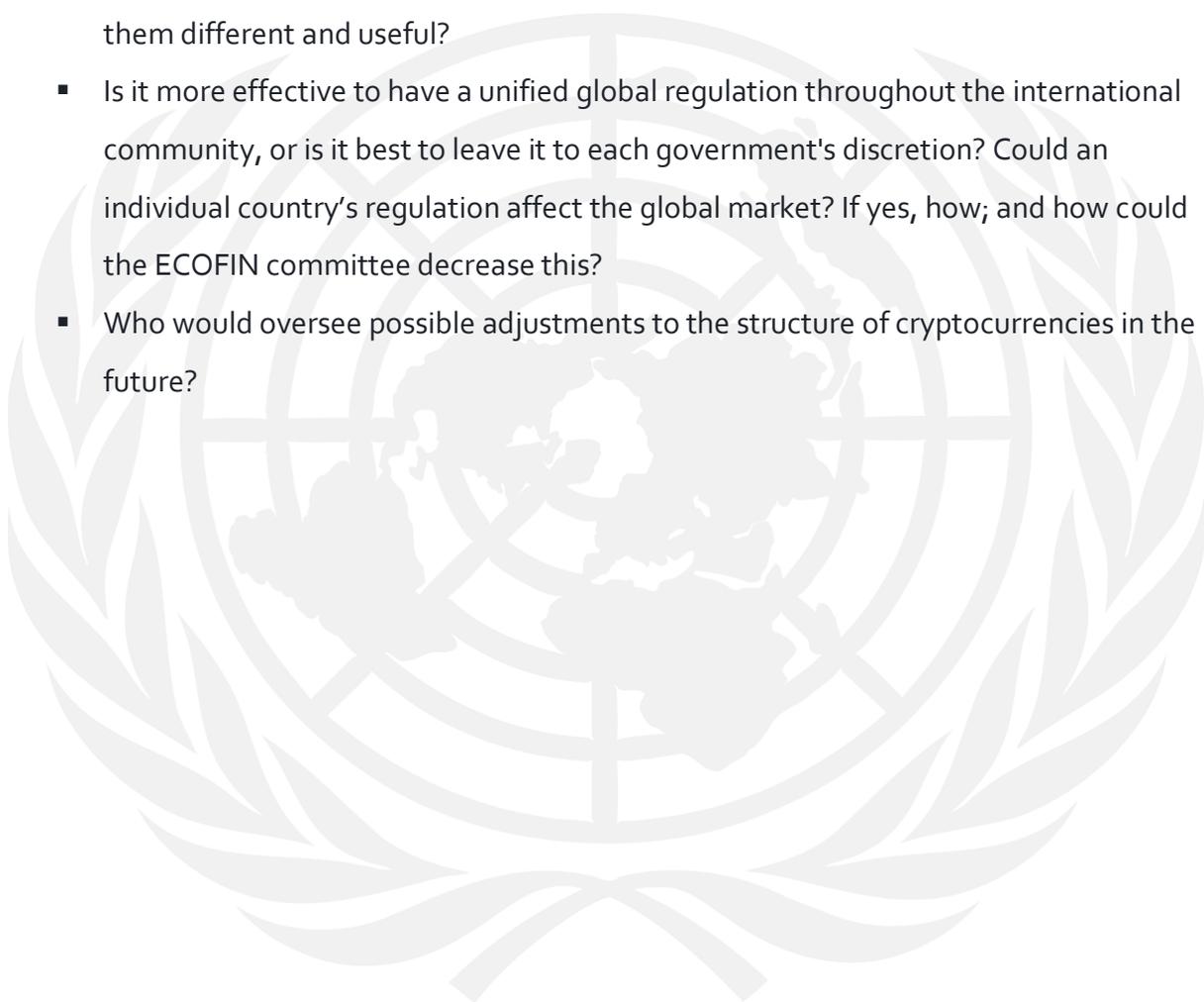
**January 11, 2018** – a cryptocurrency exchange was launched by a DMM Group. It supports 14 trading pairs and 7 cryptocurrencies. The most exciting part is that the exchange was rewarding 1000 yen to all customers who opened an account during the grand-opening campaign which lasted for 60 days.

## c) USA

The USA are quite interesting when it comes to cryptocurrencies, they have the highest number of cryptocurrency users, the highest number of cryptocurrency ATMs (1340) and also the highest Bitcoin trading volumes, but states and investors have different opinions about cryptocurrencies. As regulations vary between states (Texas, Kansas, Tennessee, South Carolina and Montana appear to be the friendliest. New York, New Hampshire, Connecticut, Hawaii, Georgia, North Carolina, Washington and New Mexico do not have favorable regulations.), also opinions vary between investors and within Wall Street. On one hand, Warren Buffet says that cryptocurrencies will lead to a very bad ending but on the other hand, Mark Cuban implemented bitcoin as a payment method for sport events.

## Questions to consider

- Should governments regulate cryptocurrencies? What are the pros and cons of cryptocurrency? Do the pros outweigh the cons or is it the other way around?
- How could governments regulate cryptocurrencies? What method could they utilise to control a currency that is created to be decentralized and anonymous?
- What if by regulating cryptocurrencies, which were meant to be decentralised and anonymous, they became regular digital currency with no attributes that made them different and useful?
- Is it more effective to have a unified global regulation throughout the international community, or is it best to leave it to each government's discretion? Could an individual country's regulation affect the global market? If yes, how; and how could the ECOFIN committee decrease this?
- Who would oversee possible adjustments to the structure of cryptocurrencies in the future?



## Useful sources

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