



INDIAN INTERNATIONAL MODEL UN

STUDY GUIDE

COMMITTEE: ECOFIN

AGENDA: GLOBAL STANDARDS FOR ENSURING ECONOMIC SAFEGUARDS FOR THE USAGE OF CRYPTOCURRENCIES

INTRODUCTION

In the current digital age or also known as the information age, cryptocurrency is considered as the next new “thing”. Cryptocurrencies have been attracting a lot of interest lately. Cryptocurrency is also known as electronic money/digital cash. It protects the transactions and the identities of its users. It was designed and created to be a cheaper, reliable and a quicker form of digital cash compared to our regular government issued money. It was designed as a place where assets are stored without relying on a central bank. Blockchain records the transactions made by various cryptocurrencies such as Bitcoin and could be viewed publically. It is a system that makes transactions easier with a high Byzantine fault tolerance. Precious metals gain their value due to demand and popularity. The demand is an economic factor that affects the price of many things. Few examples that are the main driver of cryptocurrency price are such as but not limited to:

- Limited supply/Demand
- Price of Bitcoin
- Media
- Investors
- Blockchains usage of energy in form of electricity
- Blockchain difficulty level

Cryptocurrencies involve various aspects and dimensions such as Public ledgers, Cryptographic, Mining, Adaptive scaling and Pseudonymise.

- **Cryptographic:** To verify transactions and control the creation of coins a system of encryption is used. This system is known as a cryptographic system.
- **Public Ledgers:** Since the creation of cryptocurrencies all transactions are stored in a public ledger. For record keeping purpose, Cryptographic techniques are used which allows the identity of the owner encrypted. The ledger makes sure that calculation can take place on the balance present in the digital wallet.
- **Transactions:** A transfer of funds from one Digital Wallet to another is called a transaction. The transaction is stored in the public ledger which awaits a confirmation. As “miners” mine the process takes a bit of a time. Once the Mining process is done the transaction gets confirmed and as added in the public ledger.
- **Mining:** A complex computational problem (like a math puzzle) must be solved by the miner to confirm a transaction. The confirmation process of a transaction is known as Mining. No individual can edit/change a block at any point of time. The transactions once added to the block are permanent and a

small fee is added to the miner's wallet. It is also known as a proof-of-work system. The mining process is another factor that gives the cryptocurrency its value.

The popularity of the Cryptocurrency market is growing popular day by day. With the rise of cryptocurrencies like Bitcoin and Ethereum, there seems to be a rise in the number of users. Due to the high demand the accounts cannot be kept opened at all time, such is the popularity of this market. The average daily trading volume of the market is usually in trillions of dollars. The market cap of the entire cryptocurrency market is more than half a trillion dollars] which is an astonishing as the market is hardly a decade old. A cashless society where people transact using centralized cryptocurrencies- that some even view as harder money is the future and to make this come true governments are taking certain steps. We will see an increase of usage from all sectors."Every country's stance or view on cryptocurrencies varies based on different factors which include the economic impact. These virtual currencies are a dream for few, have caught attention of few and have also struck fear in some.

HISTORY

Before cryptocurrencies there existed digital currency systems, but they are not the same thing. Bitcoin and other cryptocurrencies are decentralised, whereas the old cryptocurrencies were centralised. Bitcoin was also known as a peer-to-peer system. It was founded by Satoshi Nakamoto. Bitcoin back in 2008, when it was created had a value of 1 cent. The value grew to \$29 in 2009 and now has a value of over \$7,500. Bitcoin and other cryptocurrencies mere made to reduce the need for any kind of central authority. Over the period of time various cryptocurrencies have risen to popularity such as: Bitcoin, Ethereum, Ripple, Dash, Litecoin and many others. Many countries have recognized and adopted cryptocurrency as its legal tender. The Pacific island nation of 60,000, the cryptocurrency has equal status with the U.S. dollar as a form of payment.

2009: One year after the creation of the first cryptocurrency ever- Bitcoin, the first transaction takes place.

2010: A major vulnerability was found in the system. This was because Bitcoin was hacked on August 15 which involved transaction of 184 billion.

2011: More alternatives and rivalries such as Namecoin, Swiftcoin and Litecoin emerge. It was believed that Bitcoin was used in the "Dark Web", because of such claims it rose to popularity and the prices skyrocketed rather than going down.

2012: Cryptocurrencies had a fictionalised trial in US's third season of drama, which was entitled Bitcoin for Dummies.

2013: A failure in agreement on a new rule for transactions divided the blockchain into two. The difference in the two networks which has different versions of transaction led to an inevitable drop in value. Different countries try to bring in various methods for regulating and dealing with cryptocurrencies. Countries like

Thailand banned Bitcoin and declared that trading in any form/type of cryptocurrency is illegal. People's Bank of China does not permit and prohibits the usage of Bitcoins which were few of the reasons for the drop-in value. The first Bitcoin ATM was launched in Vancouver, Canada.

2014: The trading exchange Mt Gox, present in Japan files for bankruptcy protection, and doing so goes offline, which makes the investors worthless. Games from Microsoft were allowed to be purchased with this form of currency.

2015: Ethereum and Coinbase emerged (raising \$75m for a funding round. A European based Bitcoin- Bit stamp having a security breach and being hacked assured to public/customers that they did not lose their fund.

2016: ATMs rises and increases from an amount of 500 to 900 by the end of the year. Companies such as Uber in Argentina adopt bitcoin as a method of payments. In May a Decentralised autonomous organisation (DAO) was founded which is the largest crowdfunded project. After a month of its launch it was hacked by users. Ethereum also splits into Ethereum classic and Ethereum.

2017: In Japan a law is passed which allows and accepts Bitcoin as a legal payment method. Bitcoin also has a “fork” which divides it into BTC and Bitcoin cash.

Since Bitcoin and other cryptocurrencies have only been in trend for a decade or so it doesn't have a strong history. But the idea of acceptance or adopting cryptocurrencies by different governments has changed over the period of time.

CURRENT SCENARIO

From the introduction of cryptocurrency in the market in the year 2008 various cryptocurrencies like Ethereum, Bitcoin have had a tremendous increase in their value. They have been under government radar for long time. Certain regulatory bodies such as RBI and SBEI held discussion to regulate crypto currency. Based on the popularity of crypto currencies many crowdfunding programmes have been successful. Social media also involves talks about cryptocurrency and has a role in building the popularity. There are certain reasons based on which cryptocurrencies are not adopted. One of them is the economic impact. Blockchain technology is the technology behind cryptocurrency but it is also considered as a disrupter of the global business process. This could bring in changes at international levels, for example: international trade. The US dollar is considered to be the reserve currency of the global economy. Since most of the cryptocurrency transactions are decentralised they have no relation to the US dollar. Many cases prove that “de-dollarizing” the global economy can be beneficial and for such an idea cryptocurrencies can pave a way to achieve this goal. Russia and Venezuela have also considered making their own cryptocurrency (state owned).

To get out of economic sanctions and back into global economic theatres this seems to be a provincial way. Cryptographic transactions make it difficult to trace the identity of the participant, and that is why Central

banks and other institutions like the International Monetary Fund (IMF) stated that cryptocurrencies have the potential to disrupt the banking system and can revolutionize the concept of money. The value of a Bitcoin is just like a kite caught in different winds, with its price falling up and down. Governments haven't responded to this tax free commerce, but it is certain that within a few years government will take some action which might be beneficial to the investors or maybe not. Considering the case that there is a chance of legalising the usage of cryptocurrencies it would have a widespread effect on banks (middleman) and will cause a total change in the economic growth of a country and also on the global payment. There are always two sides to an argument. Taking an example of corruption, it can reduce or might even increase it. Since cryptocurrency is not found in a solid form it is tough to store/hide it from the government, and all transactions are stored in a public ledger which could be viewed by all. But identifying the participant is a tough job and might increase the chances of corruption by not knowing a confirmed ID of the participant. States and countries are opting for one of two alternative positions and are waiting to see how regulation works out before taking any step to ban it. Cryptocurrencies have had and seen an increased growth in market capitalization and price. It means that the features are changing the way of any transaction or payment. As cryptocurrency is a global concept and different ideas and exchanges can pop up in any country it is unsure how the market would be in the following years.

BLOC POSITION

1. **Argentina**– Since they are not issued or monitored by governmental authority, Bitcoins are not legal. They are not a legal currency but still it is considered as a form of money.
2. **Australia** – Double taxation policies are not applicable by removing Bitcoins. The government also legalized Bitcoin and stated it could be used as money.
3. **Bangladesh** – The usage of cryptocurrencies for transactions is punishable by up to 12 years in jail.
4. **Belgium** –Awaits the European wide guidance and has refused to give any stance regarding Bitcoin or any other cryptocurrencies.
5. **Brazil** – Bitcoin is not declared as a currency by the Brazilian Government but still considers it as an asset and gains 15% taxes.
6. **Bulgaria**– Bulgaria has accepted the digital currency. New taxation guidelines are issued by the National Revenue Agency. The taxed financial assets stand at a rate of 10%.
7. **Canada** –Bitcoin transactions and payments are considered as barter transactions. Counter-terrorist financing legislation and anti-money laundering could be achieved by regulating Bitcoins.
8. **Chile** – The first Bitcoin exchange in Chile, where citizens can buy Bitcoin with pesos, launched in 2015 with funding from the Chilean government. The main idea is to transform Chile into a hub of entrepreneurial and innovation for Latin America. Regulation for anti-money laundering is also taken care by the Government.

9. **China** – The banks are not allowed to regulate or accept any kind of cryptocurrency but individual can trade as per their wish.
10. **Czech Republic** – A law was introduced which determines the identity of customers of those involved in the virtual currency exchanges. A value added tax (VAT) will be added to cryptocurrencies.
11. **Denmark** – The Danish government and Financial Supervisory Authority have announced that Bitcoin businesses will be taxed in a normal manner, and individuals will not be subject to taxation from trading. “The Danish central bank is considering a digital-only e-krone.”
12. **Estonia** – Bitcoins and digital currencies could be declared as an alternative payment means, subjecting them to capital gains liabilities and VAT.
13. **France** – The French government has shown some interest in the technology, but according to pundits has yet to launch major initiatives in the field.
14. **Germany** – Bitcoins are treated as a trading activity, said by a report in 2013. Bitcoin is treated like private money and a unit of account and is subject to taxes and VAT.
15. **India** – There is no certain law regarding usage of Bitcoins or usage of other cryptocurrencies, and they are widely used in India.
16. **Iran** – A ‘wait and see’ policy was adopted by the Central bank. Trading cryptocurrencies is considered illegal but there is no way of stopping this trading.
17. **Italy** – Tax authorities appear to be treating Bitcoin as a form of currency. They have clarified purchases and sales made with Bitcoin remain exempt from VAT. However Tax isn’t applied to those who buy bitcoins individually outside the scope.
18. **Japan** – When Bitcoin was considered as a legal tender. The Japanese government eliminated all taxes and also the consumption tax on trading Bitcoins.
19. **Kazakhstan** – The main aim is to become the regional hub for cryptocurrencies. It has plans to sell blockchain bonds and that it wants to help the world get rid of monetary wars.
20. **Latvia** – Uses bitcoin only as an alternative for flight payments.
21. **Mexico** – It hasn’t banned the usage of crypto currencies but instead is in talks to form its own form of Bitcoin and their own blockchain.
22. **New Zealand** – It does not consider cryptocurrency as a currency but takes it like a form of payment, similar to few other countries.
23. **Poland** – It awaits the regulation from the EU. It recognises the trading and mining of virtual currencies as an official economic activity,
24. **Russia** – Bitcoin and other cryptocurrencies would be considered legal from next year. The main aim of the government is to tackle money laundering. It has a great oversight which leads to its legitimacy.
25. **Spain** – Among the EU members Spain wants to establish a cryptocurrency regulatory framework. No VAT or other taxes are consumed from these cryptocurrency. Most of many Bitcoin companies call Spain their home.

26. **Sweden** – The Swedish regulator has declared Bitcoin as a legal currency.
27. **United Arab Emirates**– The exact status of cryptocurrencies is currently under review.
28. **United Kingdom**–Bitcoin technology is monitored regularly by the Bank of England. It is considered and classified as private money, with VAT applied and also subject to capital gains tax.
29. **United States** – The number of users for global trade in cryptocurrency is the highest in the US. Highest number of Bitcoin ATMs could be founded here. But this differs from one state to another. In states like Texas, Kansas, Tennessee, South Carolina and Montana appear to be flexible for usage of cryptocurrency based on state regulation, whereas New York, New Hampshire, Connecticut, Hawaii, Georgia, North Carolina, Washington and New Mexico have regulations not favourable to virtual currency. The other 37 states/territories are grey areas currently.
30. **Venezuela** – Venezuela has a lot of popularity but still hasn't declared the usage of cryptocurrency as legal.

Considering cases of legalization for the usage of Cryptocurrencies there are mainly two reasons, one for reducing the reliance on the US dollar for the Economy growth and one to have a simpler regulation. Taking in account of these factors and the country's stance blocs could differ even being an ally with other countries at various cases.

SUGGESTED MODERATED CAUCUS TOPICS

1. Materialisation and Monetisation of Cryptocurrency
2. Registration Mechanism of Cryptocurrencies
3. Regulation of Demand and Supply of Cryptocurrency
4. Currency exchange mechanisms for Cryptocurrencies
5. Purpose/Need for monetary unit or investment
6. Taxation on Cryptocurrency usage
7. Pros and Cons of cryptocurrency
8. Possibilities of Economic Bubble due to Cryptocurrency
9. Global trade impact by Cryptocurrencies
10. Increase or reduction of Black money by regulation of Cryptocurrencies

RESEARCH LINKS

1. <https://bitcoinmagazine.com/articles/cryptocurrency-regulation-2018-where-world-stands-right-now/>
2. <https://cryptocurrencyfacts.com/how-does-cryptocurrency-work-2/>
3. <https://www.un.org/development/desa/en/news/policy/cryptocurrencies.html>

4. <https://www.cygnet-infotech.com/blog/major-issues-in-cryptocurrency-trading>
5. <https://hackernoon.com/6-cryptocurrency-problems-and-fixes-e937d1111beb>
6. <https://hackernoon.com/major-problems-in-the-cryptocurrency-market-c9c9ff53b266>
7. <https://hackernoon.com/could-cryptocurrency-change-the-international-economic-system-b12ac9eb306f>
8. <https://www.coindesk.com/the-united-nations-wants-to-accept-ethereum-and-bitcoin-and-soon/>
9. https://idsa.in/specialfeature/cryptocurrencies-and-the-regulators-dilemma_msharma_010817
10. <http://buildingglobaldemocracy.org/cryptocurrency-may-change-global-economy/>
11. https://www.dni.gov/files/PE/Documents/9---2017-AEP_Risks-and-Vulnerabilities-of-Virtual-Currency.pdf
12. <http://www.thefabricnet.com/blockchain-cryptocurrency-and-legal-tender-the-three-sides-to-a-coin/>
13. <https://www.tradingheroes.com/cryptocurrency-trading-guide-beginners/>
14. <https://blog.seedly.sg/cryptocurrency-timeline-beginning-end-everything/>
15. <https://www.telegraph.co.uk/technology/digital-money/the-history-of-cryptocurrency/>
16. <https://medium.com/koinex-crunch/a-brief-history-of-cryptocurrency-889fed168555>
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18. <http://www.businesspundit.com/history-of-cryptocurrency/>
19. <https://blogs.thomsonreuters.com/answerson/world-cryptocurrencies-country/>
20. <https://www.theatlantic.com/technology/archive/2017/05/blockchain-of-command/528543/>