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GA2: Economic and financial committee (ECOFIN)

Research Report

Topic 2: Refining regulations on the use of cryptocurrencies.

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Introduction:

Cryptocurrency, a digital form of currency based on blockchain technology, has rapidly grown in the last 10-15 years. While the impacts that it has financially been discussed heavily, we have not talked enough about how it can contribute towards sustainable development goals (SDGs). Crypto currencies can contribute to good governance (SDG 16), combat corruption (SDG 16.5), and improve accountability in supply chains (SDG 12.6).[1]

Definition of key terms:

Cryptocurrency: A digital currency designed to work as a medium of exchange through a computer network that is not reliant on any central authority.

Central bank: A central bank, reserve bank, or monetary authority is a bank that manages the monetary policy and the currency of a country. In comparison to a normal commercial bank, a central bank possesses a monopoly on increasing monetary base.

Blockchain: Blockchain technology is an advanced database mechanism that allows transparent information sharing within a business network. A blockchain database stores data in blocks that are linked together in a chain.

Monetary policy: Monetary policy is a set of actions to control a nation's overall money supply and achieve economic growth within the country. Monetary policy strategies include revising interest rates and changing bank reserve requirements.

Volatile (volatility): Liable to change rapidly and unpredictably, especially for the worse.

Background information:

In June 2023 the EU adopted a comprehensive and innovative regulatory framework on markets in crypto-assets that will regulate crypto-assets markets. The regulation focuses on stablecoins, which are crypto values which promise 'stable value' against other official currencies[2]. The problem with this is that cryptocurrencies are extremely volatile. The prices

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[1] Medium.com, Cryptocurrency: Driving social value and advancing sustainable development goal, https://medium.com/coinmonks/cryptocurrency-driving-social-value-and-advancing-sustainable-development-goals-f35a97b46aee#:~:text=By%20facilitating%20transparent%20transactions%2C%20cryptocurrencies,supply%20chains%20(SDG%2012.6), Published: June 19th, 2023, Accessed: January 4th, 2024.

[2] European Parliament,

of cryptocurrencies experience extreme fluctuations in a short period of time. This as a starter is a barrier to widespread adoption and can pose risk for investors and users.

The first cryptocurrency was created by Satoshi Nakamoto, the pseudonym for an anonymous computer programmer or group of programmers, on January 3rd, 2009.[3] The first introduced cryptocurrency was bitcoin. The reason as to why the cryptocurrency was created was because the founder believed that traditional currencies were too reliant on the trustworthiness of banks or governments to work properly. A currency as bitcoin would be transferred through the bitcoin network, ultimately none of the transactions would go through a bank. Transactions would be organised in blocks and then organized in a sequence called block chain.

As cryptocurrency has grown overtime it has faced a big problem with hackers due to the potential for large financial gains. This has happened multiple times before, where users have lost the money that they have stored through the purchase of a given cryptocurrency. The lack of safety has led to a lot of countries placing regulations, as governments want their populations to be safe in order to ensure economic stability within their country.

Major countries and organisations involved:

People's Republic of China: The peoples Bank of China (PBOC (central bank in China)) banned financial institutions from handling bitcoin transactions in 2013 and then proceeded to go further by banning ICO's and domestic cryptocurrency exchanges in 2017. China does not consider cryptocurrencies to be legal tender (legal form of currency) and the country has a global reputation for harsh cryptocurrency legislation.

United States: At this point in time the United States does not seem to have a consistent legal approach at the state level. However, they continue to progress towards federal cryptocurrency legislations. The financial crimes section of the US government does not see cryptocurrency as a legal tender but considers it to be more of a money transmitter. Exampled of money transmitters can be PayPal and Mobilepay (Only people in Denmark will know this one).

[3] Britannica, Cryptocurrency, https://www.britannica.com/money/topic/cryptocurrency, Published: December 15th, 2023, Accessed: January 4th, 2023.

United Kingdom: Like the People's Republic of China and the United States, the United Kingdom does not recognize cryptocurrencies as a legal tender, and they have registration requirements. The 'unique identity' of the cryptocurrencies means that they cannot be compared to conventional investments or methods of payment. There was a regulation put into place in 2020 that the cryptocurrency exchanges in the UK need to register with the financial conduct authority (FCA). This has to do with them complying with the Money laundering, Terrorist financing and transfer funds regulations of 2017.

Japan: As of now Japan has the world's most progressive regulatory climate for cryptocurrencies and recognized bitcoin amongst other cryptocurrencies as legal properties and as a legal tender. There is one regulation imposed by the National tax agency in 2017, that the gain from cryptocurrencies must be categorized as 'miscellaneous income'. IN 2020, there was an amendment to the regulations. One of the amendments included introducing 'crypto asset' instead of 'virtual currency' which placed greater restrictions on managing users' virtual money and eased regulation on crypto derivatives trading.

Relevant UN Resolutions:

Halting cryptocurrency expansion in developing countries: This is being put into place as the UN is scared that crypto currency will be used for tax evasion, meaning that it will be very difficult for these LEDC to grow as the tax that is supposed to go to the government is floating around as sometimes unregistered money.

- Financial institutions should be banned from holding cryptocurrencies, including stablecoins.

UNCTAD advocates for global tax coordination regarding cryptocurrency tax treatments, regulation and information sharing.

Adaption to digital era: The governments around the world are advised to provide a safe, reliable and affordable public payment system which is adapted to the digital era.

Possible Solutions:

- Establish clear and consistent regulatory frameworks: Governments or firms can provide clear guidelines and regulations to create a more predictable environment for businesses and users.
- International collaboration: The encouragement of international cooperation to harmonize regulations and address the global natures of cryptocurrencies.
- Consumer protection: Design and introduce cryptocurrency wallets and exchanges with a focus on decreasing the likelihood of error and to increase the user experience.

- Enhance safety: Increase the safety so users have a lower chance of losing their money through hackers, which would increase consumption of cryptocurrencies.
- **CBDCs:** The introduction of CBDC's would give the governments that implemented maintain control the money supply and implement monetary policy. This contrasts with some cryptocurrencies, which operate independently of central authority. With the introduction of CBDCs there is a chance that the currency would be more stable compared to cryptocurrencies which are known for their volatility.

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