

Forum: Economic and Financial Committee

Issue: Regulating cryptocurrency markets to ensure economic stability

Student Officer: Ege Nogay

Position: President Chair

Introduction

Started as a niche technological experiment, cryptocurrency markets have grown into a global financial phenomenon. In 2025, the cryptocurrency market size was valued at USD 4.87 trillion, and it has continued to grow since then (Mordor Intelligence). Today, there are over 16000 cryptocurrencies, and about 10 cryptocurrencies are created every day (Mordor Intelligence). Major and widely known cryptocurrencies such as Bitcoin and Ethereum make up a significant portion of the total market capitalization.

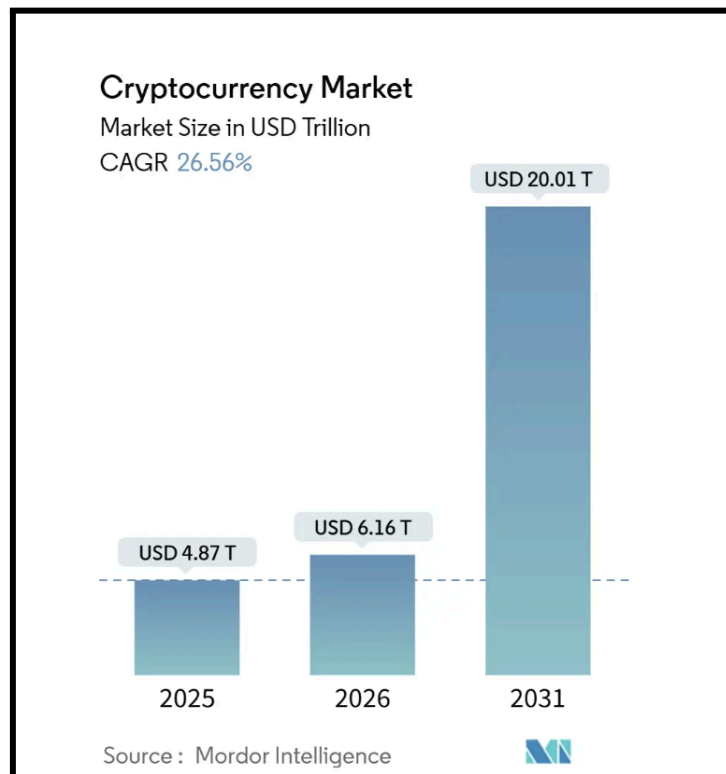


Image 1: Size of the Cryptocurrency Market (Mordor Intelligence)

The cryptocurrencies have rapidly expanded. This expansion has influenced how monetary policies and financial regulation are approached by governments and central banks. Operating independently from central banks, cryptocurrencies have the potential to challenge the traditional monetary system. Therefore, they may impact capital flows across borders, exchange rate stability,

the effectiveness of capital controls, and financial stability risks (Consultative Group of Directors of Financial Stability (CGDFS)). As a result, many governments have implemented Central Bank Digital Currencies (CBDCs) to maintain monetary sovereignty (Bindseil et al.).

Furthermore, cryptocurrencies majorly changed transactions by enabling “peer-to-peer transfers without intermediaries” such as banks (TradeDork). While illicit transactions exist they make up a small portion of all transactions. The majority of the activities involving cryptocurrencies are pertinent to legal activities, such as but not limited to investment, remittances, and decentralized finance.

Despite their rapid growth, cryptocurrency markets face significant structural challenges. Money laundering, for instance, is a significant risk as the transactions can be conducted pseudonymously. Moreover, cryptocurrencies are highly volatile, especially compared to traditional assets. Speculation, leverage, regulatory announcements, or liquidity shocks may cause sharp fluctuations. Lack of consumer protection is another problematic aspect. Unlike most traditional banks, the crypto platforms generally do not have any deposit insurance schemes for protection. Lastly, global regulatory inconsistencies pose one of the biggest structural challenges, as different nations classify these currencies differently.

Definition of Key Terms

Cryptocurrency: “any form of currency that only exists digitally, that usually has no central issuing or regulating authority but instead uses a decentralized system to record transactions and manage the issuance of new units, and that relies on cryptography to prevent counterfeiting and fraudulent transactions” (Merriam-Webster).

Financial Stability: “Financial stability is defined in terms of its ability to facilitate and enhance economic processes, manage risks, and absorb shocks. Moreover, financial stability is considered a continuum: changeable over time and consistent with multiple combinations of the constituent elements of finance” (IMF).

Central Bank Digital Currency (CBDC): “Central Bank Digital Currency (CBDC) is a new form of money that exists only in digital form. Instead of printing money, the central bank issues widely accessible digital coins so that digital transactions and transfers become simple. Efforts towards CBDC grow all over the world for many reasons” (Leucci).

Money Laundering: “the concealment of the origins of illegally obtained money, typically by means of transfers involving foreign banks or legitimate businesses” (Oxford Languages).

Volatility: “Volatility shows how much a security or market index’s returns fluctuate over time, indicating how widely prices move around their average. It’s often calculated from the standard deviation or the variance between those returns. In most cases, the higher the volatility, the riskier the

security” (Hayes)

Decentralization: “Decentralization refers to a specific form of organizational structure where the top management delegates decision-making responsibilities and daily operations to middle and lower subordinates. The top management can thus concentrate on making major decisions with greater time abundance. Businesses often feel the requirement of decentralization to continue efficiency in their operation” (People Hum).

Regulatory Framework: “A regulatory framework is a structured set of rules, laws, guidelines, and standards established by government agencies or industry bodies to govern the operations of organizations” (Regulatory Framework)

Blockchain: “a system in which a record of transactions, especially those made in a cryptocurrency, is maintained across computers that are linked in a peer-to-peer network.” (Oxford Languages).

Stablecoin: “A stablecoin is a cryptocurrency whose value is designed to be stable, typically by being pegged to a fiat currency like the U.S. dollar. On paper, they aim to offer the benefits of cryptocurrency — high-speed, low-cost and decentralized transactions — with the stability of traditional assets. Yet despite their promise, stablecoins have existed on the periphery of the mainstream financial system, largely due to a lack of a comprehensive regulatory framework” (JP Morgan).

General Overview

The Rise of Cryptocurrency Markets

The rise of the market was initiated when Bitcoin was launched in 2009, with a white paper titled “Bitcoin: A Peer-to-Peer Electronic Cash System” being published by the pseudonymous Satoshi Nakamoto. Bitcoin was designed as a decentralized peer-to-peer payment system. It introduced the blockchain system for the first time, promoting it as a secure and transparent ledger mechanism (Nakamoto).



Image 2: What is a Bitcoin? (Coinbase)

Soon after the creation of Bitcoin, new protocols such as Ethereum expanded the system. They enabled programmable smart contracts and decentralized applications. By the middle of 2020, the value of the market has climbed to multi-trillion dollars positioning crypto assets as a prominent aspect of the current financial markets (Statista).

Economic Risks

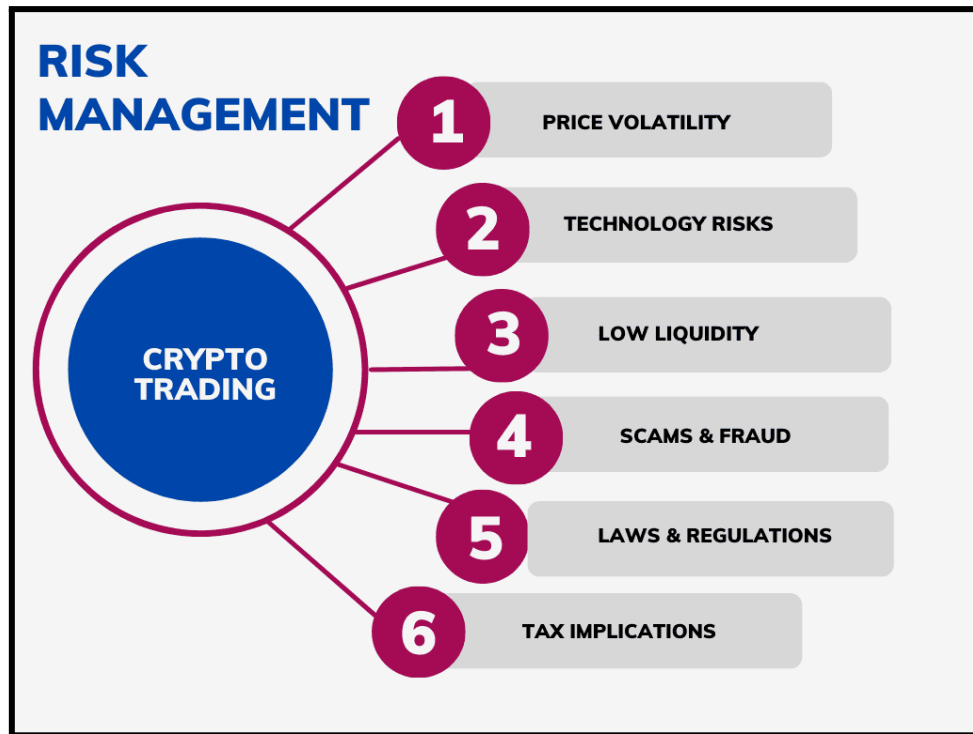


Image 3: Risks of Cryptocurrency Trading (Altrady)

When we think about cryptocurrencies, we have to take into account the price volatility, technological risks, low liquidity, scams, fraud, etc. One of the fundamental risks of cryptocurrencies is that it is highly volatile. Assets are more than often driven by media and social media. Therefore, the value of these currencies may rise and fall dramatically, causing economic instability (CSA).

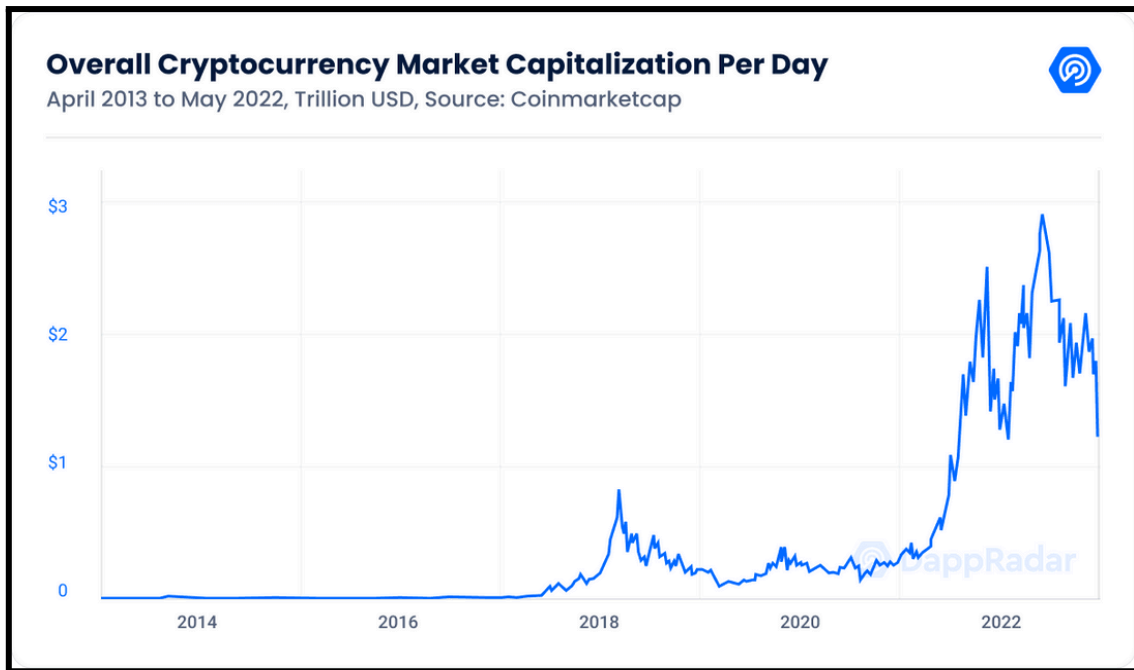


Image 4: The Graph Showing the Volatility of Cryptocurrencies

Moreover, weaknesses in crypto market infrastructures poses another challenge. The collapse of FTX in 2022 highlighted deficiencies in governance, risk management, and transparency within certain crypto intermediaries (Kuvandzhiev). As a result of such failures, the market confidence may be undermined.

Additionally, stablecoins lacking credible backing mechanisms potentially triggers liquidity crises during periods of market stress (Castellani et al.).

Regulatory Challenges

Regulating crypto markets that operate across national borders with technologies that often lack clear legal structures poses one of the main challenges. Often, crypto firms take advantage of disparate regulatory frameworks and choose locations with looser oversight. Hence, they complicate the firm enforcement of the regulatory standards.

Consumer Protection and Fraud

Consumer protection remains a central concern. Recently, frequent fraud, scams, and cybersecurity breaches, such as hacking incidents targeting ATMs or digital wallets, have come to attention, posing significant risks for investors. On

Potential Benefits of Cryptocurrencies

Even though this report focuses on the risks of using cryptocurrencies and ways to mitigate them, we shouldn't overlook the potential benefits also highlighted in Image 5.

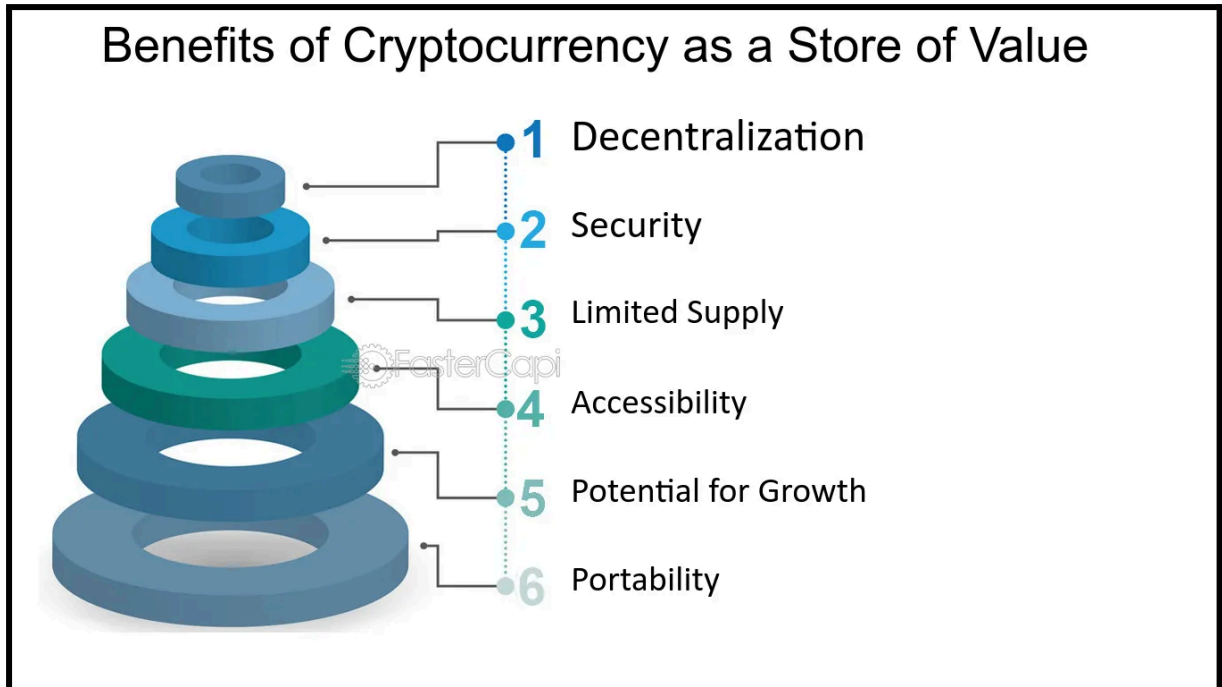


Image 5: Benefits of Cryptocurrency (Benefits of cryptocurrency - FasterCapital)

Major Parties Involved and Their Views

United States of America

The United States regulates the crypto markets through the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). Hence, the state protects the investors and the unity of the market (Garnett).

European Union (EU)

The EU adopted a comprehensive regulatory body called Markets in Crypto-Assets (MiCA) to regulate crypto assets to protect investors and market stability (Wikipedia).

China

China has largely banned private cryptocurrency trading and mining. Instead, China focuses on centralized digital currencies like the digital yuan in order to limit financial risks (Amit Chahar).

El Salvador

El Salvador initially declared Bitcoin legal tender. Later, El Salvador revoked this status and tightened regulations as a result of an agreement with the IMF (Wikipedia).

International Monetary Fund (IMF)

The IMF draws attention to the macro-financial risks of crypto assets and advises member states to develop robust regulatory frameworks (Anadolu Ajansı)

World Bank

The World Bank conducts technical studies related to cryptocurrency. Yet, it has been hesitant to provide support to some countries regarding cryptocurrency adoption (World Bank Blogs).

Financial Stability Board (FSB)

The FSB warns of gaps and a lack of compliance in cryptocurrency markets and calls on countries to develop more coordinated regulation systems (Howcroft and Jones)..

Timeline of Events

3 January 2009	Bitcoin launched
17 December 2017	First major crypto bubble
14 April 2021	Market reaches record high
7-12 May 2022	Terra-Luna collapse
2-11 November 2022	FTX bankruptcy

UN Involvement

The United Nations system has increasingly engaged with issues. UN bodies and independent organizations linked with the UN, such as the United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF), United Nations Office on Drugs and Crime (UNODC), and United Nations Commission on International Trade Law (UNCITRAL) worked on the issue from different perspectives and hence the UN emphasized the importance of financial inclusion and consumer protection.

Relevant UN Documents

- [ECE/CES/GE.20/2020/5](#)
- [TD/B/C.II/52](#)
- [E/ESCWA/CL3.SEP/2023/GUIDE.1](#)
- [ECE/TRADE/C/CEFACT/2021/12](#)
- [JIU/REP/2020/7](#)
- [E/CN.16/2021/3](#)

Treaties and Events

- [Financial Action Task Force \(FATF\) Recommendations](#)
- [European Union – Markets in Crypto-Assets \(MiCA\)](#)
- [2023 G20 Crypto Roadmap](#)
- [Financial Stability Board \(FSB\) Global Framework](#)

Evaluation of Previous Attempts to Resolve the Issue

One major effort to resolve the issue at hand has been led by the Financial Stability Board (FSB) under the mandate of the G20. The organization released high-level recommendations for the regulation, supervision, and oversight of crypto-asset activities. At the regional level, the EU adopted the Markets in Crypto-Assets (MiCA) Regulation in 2023. MiCA is one of the world's most comprehensive crypto regulatory frameworks. Moreover, several frameworks have also been published by the IMF. These frameworks, in general, encourage nations to avoid granting cryptocurrencies legal tender status. While all these frameworks aimed at global coordination, they are non-binding and were not able to exhibit the intended impact.

Possible Solutions

To address the current gaps in regulation, a few steps should be taken. First and most importantly, a Coordinated Global Framework should be created. Moreover, through this framework and already existing legislation, consumer protection mechanisms must be strengthened. Furthermore, Anti-Money Laundering (AML) and Transparency Tools should be enhanced to decrease the risks at hand, and governments should be advised to explore central bank digital currencies as regulated alternatives. For developing countries, capacity-building actions such as technical assistance programs organized by the UN can be organized.

Overall, all these steps require cooperation between governments. This cooperation requires trust in order to flourish, peace, and prosperity, also highlighted by this year's theme.

Notes from the Chair

Delegates may further their research on the topic by using the following sources:

- <https://www.un.org/en/desa/exploring-potential-cryptocurrencies-positive-change>
- <https://www.undp.org/blog/decrypting-crypto>
- <https://unctad.org/publication/cost-doing-too-little-too-late-how-cryptocurrencies-can-undermine-domestic-resource>
- <https://syntheticdrugs.unodc.org/syntheticdrugs/en/cybercrime/laundryproceeds/moneylaundering.html>

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