

Forum:	Special Conference
Issue:	Combating irregulated dependance on cryptocurrencies
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Position:	President Chair

Introduction

Essentially, cryptocurrencies are digital monetary units created in blockchains that can be acquired via different methods. The primary way to obtain these units is through a licensed platform. There are multiple online platforms that allow users to manage these transactions and exchanges securely. Such websites are also a way to transfer regular currencies into cryptocurrencies by investment.

As a trend, more and more users buy cryptocurrencies every day. So far, more than 100 million users have bought, sold, exchanged, and transferred such currencies. This trend was initially begun in 2011 when the price of Bitcoin skyrocketed and inspired other people to create their own coins. An idea that has been in the minds of some people since the 1980-90s which they were unable to realize due to insufficient technological infrastructure, then came into life.

Undoubtedly, cryptocurrencies are a great investment source and have been a popular way of profit for many people. However, it is inevitable for such a high-value market with such great popularity to have dangers alongside its advantages. Cybersecurity is one of the most apparent issues as hacking and theft are extremely common due to the unregulated nature of these coins. Since these currencies are not real, instead fully digital, and are therefore kept on the internet, hackers tend to target crypto wallets. Another issue, that is rather shadowed by the issue of cybersecurity, is the ecological effects of such coins. The amount of energy that is required to keep these currencies safe, when added on top of the energy consumed by the crypto miners' continuously open computers, poses a problem to the environment.

Definition of Key Terms

Cryptocurrencies: Cryptocurrency is defined as a digital medium of exchange which uses cryptography to conduct financial transactions and verify the transfer of assets. Cryptocurrencies in general use decentralized control, which inhibits regulation by central authorities.

Distributed Ledger Technology (DLT): More commonly known as “Blockchain technology”, DLT “refers to the technological infrastructure and protocols that allows simultaneous access, validation, and record updating in an immutable manner across a network that’s spread across multiple entities or location” (Frankenfield, “Distributed”).

Peer-to-Peer Network (P2P): P2P refers to a group of computers, or users, that are linked together with equal permissions and responsibilities for processing data and therefore allow direct transmission of information between those users (“Peer-to-Peer Network”).

Monetary Sovereignty: The term, internally, “refers to the right of a state to issue a national currency, regulate its use within the territory, and use monetary policy to achieve domestic policy objectives; externally, it refers to the ability to set the exchange rates” (Murau and Van 't klooster 8).

Decentralized: “Decentralized currency, peer-to-peer money, and digital currency all refer to bank-free methods of transferring wealth or ownership of any other commodity without needing a third party. Most centralized, and some decentralized, markets use fiat currency—or physical money issued by a central bank, like U.S. dollars. Decentralized currency is used primarily in virtual markets. Two examples of decentralized currency are bitcoin - the "coinage" used on the Bitcoin platform - and ether -- used on Ethereum” (Tardi).

General Overview

Summarized History of Cryptocurrencies

The first ever digital currency was the idea of a man, David Chaum, who proposed his idea of an anonymous cryptographic electronic currency in 1982. However, the first-ever real-life application of this idea was to come years later: in 1995. Chaum, through his firm named DigiCash, published the digital currency “eCash” and became the inventor of digital currencies. This new currency, unlike its modern successors which usually work independently, has a direct connection to banks. Another famous cryptocurrency from that time period is Bit Gold, the predecessor of Bitcoin. Designed by Nick Szabo, Bit Gold had a very similar structure to Bitcoin. However, the designer could not solve the issue of double payment that allows users to copy and paste data due to the lack of central authority like a bank.

In 2008, the world was about to witness the birth of a new digital currency that is Bitcoin. The people behind this project kept their identities a secret and remained anonymous. In a paper published on 31 October 2008, they explained how the Bitcoin blockchain was functioning. Later, on 3 January 2009, Satoshi Nakamoto mined the first block of the Bitcoin network. After the price of Bitcoin stabilized in late 2009, a Bitcoin did not worth even 1 USD (Edwards). However, its rise in the 2010s will be remarkable. It increased

to \$1.06 in February 2011 before declining to about 87 cents. Prices went up in the spring of 2011, in part as a result of Forbes' discussion of the new "cryptocurrency" and the publicity it received from being included in such an esteemed outlet. As a result, Bitcoin's price jumped and hit \$29.60 in early June of 2011. In October, Litecoin, which has the same creator as Bitcoin and is an updated version of it, was created. Soon after, it became the second-largest crypto coin in the market. Eventually, such cryptocurrencies started to be called altcoins. They were simply currencies that were based on the already existing logistics of Bitcoin and its equivalents.

The price of bitcoin rapidly increased in 2012, and in September of that year, the Bitcoin Foundation was founded to encourage the creation and use of Bitcoin. That year saw the introduction of Ripple, which at the time was known as OpenCoin. The next year, the project acquired venture money. 2013 saw another spike in the price of Bitcoin and a subsequent crash due to legal, criminal, regulatory, and software-related difficulties. At the end of November, it was 1163 USD. However, this marked the start of another prolonged downturn, which culminated with Bitcoin plummeting to 252 USD by January 2015 as a result of a significant increase in online fraud that year ("Bitcoin"). In 2016, a brand-new, significant blockchain-related cryptocurrency project entered the market. The project, called Ethereum, attracted a lot of interest in the cryptocurrency community after quickly overtaking Bitcoin in terms of market capitalization since its launch in July 2015. It enabled access to a wide range of potential use cases, introduced smart contracts to cryptocurrencies, and produced more than 200,000 different projects. In contrast to Bitcoin, Ethereum enabled users to set up and manage additional chains of platforms, each with its own cryptocurrency and use case. Other new blockchains like Cardano, Tezos, and Neo heavily copied this model.

The market has declined once more in recent years. Due in large part to rising inflation, escalating interest rates, and macroeconomic concerns brought on by political unrest and war-related insecurity in important countries. The global stock market fell in late 2021 and early 2022, and the parallel decline of cryptocurrencies demonstrates the growing interdependence of this industry with conventional financial markets. It seems understandable for users to be positive about cryptocurrencies and their potential in terms of investment and technology, as the market aims to become more stable by enhancing knowledge and expertise in the field and the creation of new areas like Stablecoin and Decentralized Finance (DeFi) are getting recognition. However, certain issues regarding Cryptocurrencies remain to be unsolved.

Major Issues Regarding Cryptocurrencies

Money Laundering

Under this section, the main discussion topic is the anonymity aspect. "[T]he anonymity prevents

cryptocurrency transactions from being adequately monitored, allowing shady transactions to occur outside of the regulatory perimeter, allowing criminal organizations to use cryptocurrencies to obtain easy access to 'clean cash' ” (Houben and Snyers 9). Financial Action Task Force (FATF) in one of its reports explains the threat that is posed by virtual currencies in the context of financing terrorism and states that even though “the original purchase of the currency may be visible (e.g., through the banking system), all following transfers of the virtual currency are difficult to detect” (FATF (2015)). The same report lists the features that attract such users: anonymity for users and transactions, easy international transfer of illicit money, low volatility, popularity of usage among criminals, and reliability. With the reports of websites that are linked to terrorist organizations like the Islamic State of Iraq and the Levant (ISIL) accepting donations in cryptocurrencies and encouraging usage of such monetary methods, the scope of this technology has gone beyond investment and finance, and therefore, requires actions under counterterrorism effort.

Jurisdiction

Blockchain technology is based on the idea that it is impossible to determine the precise location of the ledger. As a result, as already indicated, transactions made on the blockchain offer greater privacy than those made on conventional platforms. However, in a court trial, this feature creates difficult judicial obstacles. First off, because the crypto trading nodes are located across several states and countries that adopt different legislatures, they may be subject to laws that contradict. The lack of a physical location in the ledger and the user makes it impossible to determine the "country of residence" of cryptocurrency software. Alongside this, the issue of the black market is another problem that is emerging. The Silk Road platform that was initiated in 2011 and was shut down by the US Federal Bureau of Investigation (FBI) in 2013 is a great example (United States, Second Circuit Court (2d Cir.)). Essentially, The Silk Road was a market for cryptocurrencies that was used for different purposes such as money laundering, drug trafficking, hitmen, and similar illegal activities (Frankenfield, "Silk").

Data Theft and Financial Fraud

Data theft and financial fraud are two other significant legal issues regarding cryptocurrency. Many people engaged in criminal activities may be enticed to utilize cryptocurrencies for financial transactions by the blockchain's promise of anonymity and what appears to be a release from regulation, as already explained above. A serious security hole in the Ethereum blockchain was discovered by Cornell University researchers in 2017 and poses a theft risk of \$250 million (Leising). Similar to this, a data breach recently exposed one million email addresses on the ledger of the bitcoin manufacturer ("Legal Issues"). Ledger's 9,500 customers' personal information,

including names, addresses, and phone numbers, was also taken. It's still uncertain whether current data regulations can stop cryptocurrency-based economic fraud and data theft. Additionally, the worth of cryptocurrencies that are not being controlled are directly affected by any centralized entities like banks or other intrinsic commodities like gold and silver ("Why unregulated"). Their worth is totally determined by the value that other owners and investors place on them, as P2P suggests. Investors may have few legal options without the backing of centralized regulators in the event of fraud or theft in cryptocurrency trading or ownership.

Major Parties Involved and Their Views

United States of America (USA)

The United States is the primary country in which the issues about virtual currencies are being discussed. The majority of cryptocurrencies were created and are most widely used there. There exist legislative frameworks that describe and govern the use of cryptocurrencies in everyday usage, and the government has approved the use of cryptocurrencies to pay for specific products. The US Treasury released the first one on 7 July 2022, aiming to create a specialized and more secure method for buying cryptocurrencies and ensuring that payments made with credit and debit cards are safer. Nevertheless, users in the USA continue to experience the aforementioned problems with fraud and scams in the cryptocurrency sector.

People's Republic of China (PRC)

One of the nations with the greatest percentages of cryptocurrency users used to be China. However, the People's Bank of China (PBOC) banned all cryptocurrency transactions and penalized them in its contract legislation as of late September 2021. The PBOC believes that the widespread usage of cryptocurrencies is directly responsible for the growth in financial crime and that, due to their highly unpredictable character, cryptocurrencies pose a growing threat to China's financial system. Nevertheless, the widening gap between social classes may still be another factor in China's decision to outlaw cryptocurrencies.

India

With an estimated 15–20 million cryptocurrency users as of late 2021, the Indian cryptocurrency market has a value of around \$5.39 billion. However, the Indian government is considering banning the use of cryptocurrencies nationwide because they may endanger the rupee, which is the official currency. There are worries that a national complete ban on cryptocurrencies would be reinstated as a result, but the government has yet to verify this.

Venezuela

Petro is the name of Venezuela's own cryptocurrency, which launched in 2018. This cryptocurrency was developed to assist the national currency, which has seen significant hyperinflation over the past years. The oil and mineral resources of the nation serve as the basis of the Petro. Nicolás Maduro, the president in office at the time, mandated that Petro payments be accepted for all public services starting in January 2020. However, Petro's implementation has not been very successful, and it is used merely by government facilities.

European Union (EU)

The enforcement agencies of the European Union put up a set of new regulations in 2020 to close the legal loophole involving bitcoin service providers. The European Commission has declared that cryptocurrencies comply with the same standards for transparency, disclosure, licensing, compliance, approval, and oversight in the market for crypto assets (MiCA), which is a subset of a larger package of FinTech regulations. The framework aims to combat fraud and safeguard business dealings between brokers and investors.

Timeline of Events

10 February 1999	The first cryptocurrency named Digicash was created in the USA.
29 December 2005	Bit Gold, which was the initial version of Bitcoin, was created and published.
3 January 2009	First Bitcoin blockchain was launched.
22 May 2010	First-ever Bitcoin transaction was made.
December 2013	Bitcoin's total value in the market exceeded 1 billion USD.
6 November 2014	Largest cryptocurrency black market at the time named The Silk Road was shut

	down by the Central Intelligence Agency (CIA), and INTERPOL.
30 July 2015	Ethereum was created.
1 February 2018	The UN's first informational seminar regarding cryptocurrencies took place.
8 May 2020	In the 53rd session of the United Nations Commission on International Trade Law (UNCITRAL), the commission's first report regarding blockchain technologies was published.
December 2021	Bitcoin's total value in the market exceeded 1 trillion USD.
November 2022	World's third largest crypto exchange FTX and all of its associated firms (e.g. FTX US and Alameda Research) filed for bankruptcy.

UN Involvement

“Seminar: Understanding Bitcoin, Blockchains and the Crypto Economy”: This was a seminar that took place on 1 February 2018 and focused on the rise of cryptocurrencies. It was executed by the Development Strategy and Policy Analysis Unit of the United Nations. The seminar covered fundamental concepts of cryptocurrencies and also mentioned the international framework and international law matters regarding the matter. The seminar was public, and anyone interested was allowed to join.

“Legal issues related to the digital economy”: This is a report prepared and published by the United Nations Commission on International Trade Law (UNCITRAL) secretariat. The report analyzes the blockchain and blockchain-based applications, according to its exploratory work. It also includes answers to some of the legal concerns that were raised by some of the UN organizations/bodies and converges with

the expectations as to the role of the law.

“Blockchain applications in the United Nations system: towards a state of readiness”: This was a report of the Joint Inspection Unit (JIU) published by the United Nations in 2020. It was about the usage of blockchains in the UN system. It also talked about the difficulties of application and implementation as well as the enforcement of blockchain technology. The report suggests using an endogenous growth model to develop cryptocurrencies for each country specifically.

“Harnessing blockchain for sustainable development: prospects and challenges”: This was a report of the Secretary-General published in June 2021. Its main focus was to utilize blockchain technology for the benefit of Sustainable Development Goals and how countries and international organizations can take part in this effort.

Relevant UN Documents

Legal issues related to the digital economy, Note by Secretariat (8 May 2020, A/CN.9/1011).

Legal issues related to the digital economy – proposal for legislative work on electronic transactions and the use of artificial intelligence and automation, Note by Secretariat (5 May 2021, A/CN.9/1061)

Harnessing blockchain for sustainable development: prospects and challenges, Report of the Secretary-General (25 June 2021, UNCTAD/DTL/STICT/2021/3)

Legal issues related to digital economy – proposal for future work on data transactions, Note by Secretariat (27 April 2022, A/CN.9/1117)

“All that glitters is not gold: The high cost of leaving cryptocurrencies unregulated, UNCTAD Policy Brief No. 100 (June 2022, UNCTAD/PRESS/PB/2022 /8 (No. 100))

Evaluation of Previous Attempts to Resolve the Issue

In order to regulate cryptocurrencies, a variety of measures have been implemented. Due to the problems they might create, countries like Algeria, Argentina, Egypt, Morocco, Bolivia, Ecuador, United Arab Emirates, Nepal, and Pakistan have directly banned cryptocurrencies in their borders, deemed them illegal, and considered them illegitimate money. The reasoning behind their decision is simple: deregulation of the industry. Some countries like Vietnam and Indonesia, instead of directly illegalizing them, nullified their use and function. In these countries, it is not illegal to obtain and hold cryptocurrencies, but it is not legal to use them as a payment method. There is another batch of countries that have adopted a different type of policy on this matter. They do not have any preventative legislature about the legality of cryptocurrencies, but they

have prevented financial institutions from managing such currencies. These countries include Bangladesh, Cambodia, Canada, China, Colombia, India, Iran, Jordan, Saudi Arabia, and Taiwan. Almost all of the remaining countries accept cryptocurrencies as a legit form of payment and have not illegalized any matter regarding them.

Regarding Intergovernmental Organizations (IGOs), the EU has created an action plan to address the various facets of the complex problem of cryptocurrency regulation. Initiatives such as the Investigation of Transactions in Underground Markets (TITANIUM) project have also been proposed to “researched, developed, and validated novel data-driven techniques and solutions designed to support Law Enforcement Agencies (LEAs) charged with investigating criminal or terrorist activities involving virtual currencies and/or underground markets in the darknet” even though the project ended in April 2020 (“TITANIUM: Tools”). The World Bank has developed a number of in-depth reports that look at general guidelines for handling cryptocurrencies in the coming years, national analyses on the applicability of this technology to various state structures, and new blockchain-related ideas, like using them to create more inclusive and sustainable supply chains globally. As for the UN, it is clear that the United Nations gives importance to the issue which is evident in the Secretary General’s Address to the General Assembly on September 25, 2018, in which he underlined the potential of blockchain and cryptocurrencies in the effort for Sustainable Development Goals (SDGs). The UN approaches the issue from different sides, utilizing its different bodies: ECOSOC for the economic side and the United Nations Office on Drugs and Crime (UNODC) for cybersecurity, money laundering, drug trafficking, and other relevant law enforcement issues. An example of this multidisciplinary approach can be seen in the “Thirteenth Meeting of Heads of National Drug Law Enforcement Agencies, Europe” (2019), in which the importance of collaborations between legal and financial institutions to combat the usage of cryptocurrencies in illegal drug trafficking is highlighted. UNODC continuously emphasizes this issue and aims to enlighten different law enforcement bodies via officer trainings such as UNODC Cryptocurrency Training.

Possible Solutions

Due to the decentralized nature of cryptocurrencies, many of its features are immune to any change by any specific state. Therefore, it is a challenge for authorities to put regulations, especially for LEDCs. However, it is relatively more realistic for MEDCs, who host many of the headquarters of crypto providers, to put some regulations. As also recommended by the UN, there are some regulatory policies that states may enact. One of them is putting some financial restrictions on the cryptocurrency market and its usage. A state, by requiring the registration of digital wallets and crypto-exchanges, can possibly make cryptocurrencies less attractive for citizens. Such a policy would include extra taxation and/or special entry fees for crypto wallets. Another way of controlling the spread of cryptocurrency usage is to limit exposure. Limitations for advertisement for such virtual wallets and exchange methods in public spaces, the internet, and social

media would benefit countries where financial literacy is low. One last solution option might be to create a national digital currency. In a state where unregulated and untrustworthy digital currencies are being used, a government-created and regulated, therefore safe and reliable, digital currency would benefit the whole public as it would restabilize the market. Even though this chair report includes different solution possibilities, delegates should not forget that all states have different types of fiscal policies and financial situations, ultimately affecting their ability to adopt different suggested policies. Therefore, it is needless to say all states should have a solution policy for their own financial needs. It is the duty of delegates to coin solutions in which they combine the needs of a safe crypto-exchange environment (e.g. cybersecurity, data protection authorities, telecommunications, etc.) and the regulation principles of nations (“All that”).

Notes from the Chair

All delegates are encouraged to look through these reports and websites for further research:

- [Blockchain: Opportunities for Private Enterprises in Emerging Markets](#)
- [PDF Cryptocurrencies and Blockchain - The World Bank](#)
- [Cryptocurrencies and blockchain](#)
- [Emerging Terrorist Financing Risks](#)
- [Regulating the Crypto Ecosystem: The Case of Unbacked Crypto Assets](#)

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