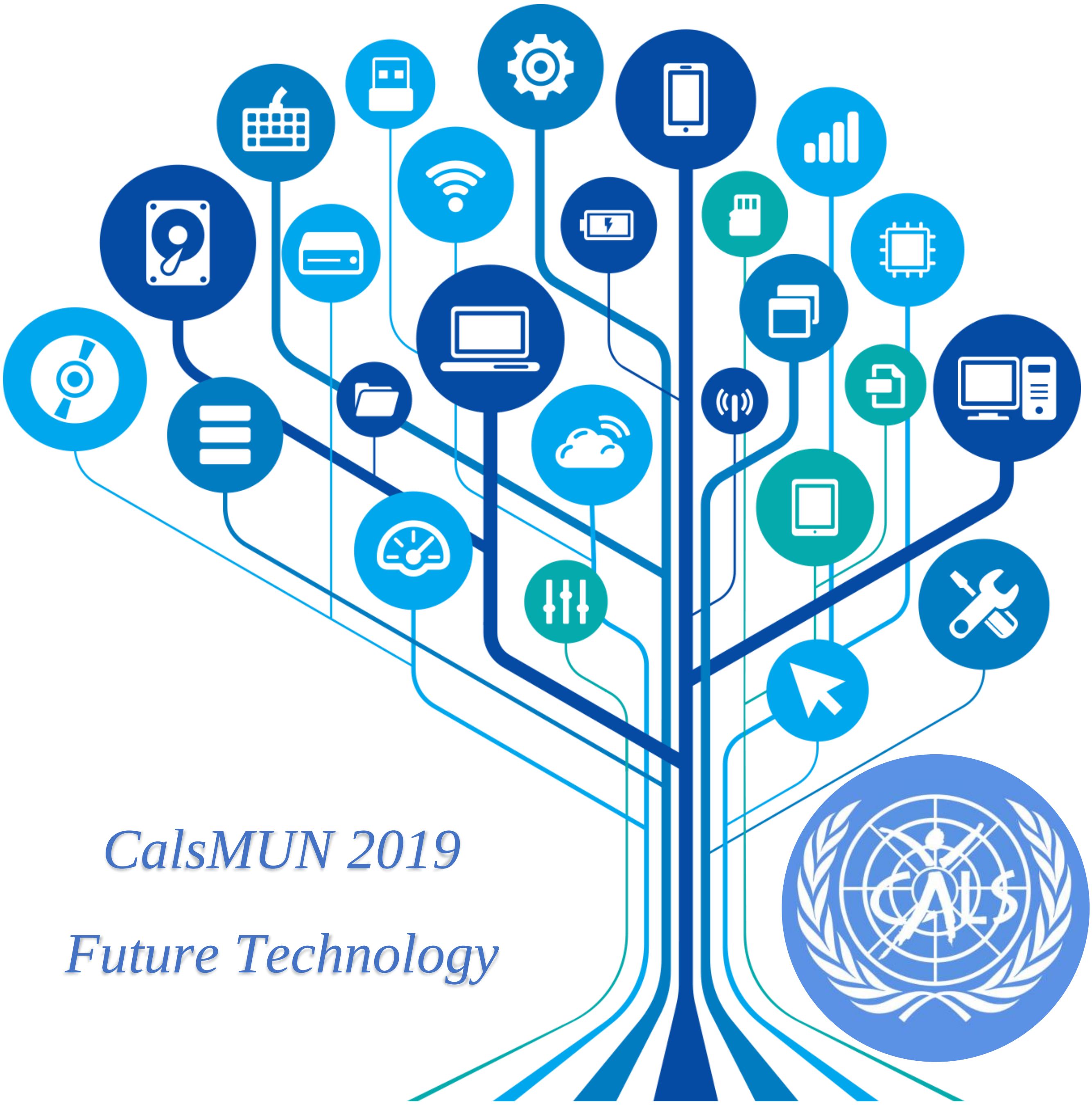

CalsMUN 2019

Future Technology

Research Report

Forum: UNDP

Issue: The effect of cryptocurrency on the global economy

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Introduction

Cryptocurrency swept the world. From social media to news broadcasts to even government legislation, it was the talk of the town. The discussion upon this topic is greatly polarized and involves many nations with different sentiments. There are some who call it a bubble, and others think it could disrupt our global economy.

Blockchain technology is the core of cryptocurrency and would without a doubt be described as a major disruptor in the global business process. Yet, there is a lot more attention upon the cryptocurrencies themselves. Many investors and large companies have jumped in.

This all happened in a span of less than ten years, when Satoshi Nakamoto created Bitcoin.[1][2]

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 Virtual currency bitcoin hit the mainstream in 2014. Bitcoin ATMs started springing up all over the world, allowing people to exchange cash for the *cryptocurrency*, a secure digital payment outside of conventional financial institutions.

Examples of *cryptocurrency* in a Sentence

'Recent' Examples on the Web

While the country was once home to the world's most active *cryptocurrency*exchanges, authorities banned the venues last year and have since moved to block access to platforms that offer exchange-like services.— *Fortune*, "China Is Said to be Cracking Down on a Cryptocurrency Loophole," 28 Feb. 2018 Bitcoin, however, has become the *cryptocurrency* standard operating much like U.S. dollar would operate in public currency markets, but in the crypto realm.— Michael C. Dealoia, *cleveland.com*, "Cleveland-area entrepreneurs are pouring resources into new-currency technolgoy: Tech Czar Talk," 25 Feb. 2018

Blockchain

A digital database containing information (such as records of financial transactions) that can be simultaneously used and shared within a large decentralized, publicly accessible network.

Also**:** the technology used to create such a database. It's the technology at the heart of bitcoin and other virtual currencies, *blockchain* is an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way.[3]

General Overview

For those who do not know, the global economy primarily relies on the US Dollar. This is the summary of the dominance of the United States in global economic and political affairs. The US Dollar is the reserve currency of the global economy. Every single mainstream financial actor from all over the globe function in the US market. It is for this reason that any upheavals in the US financial market always sends shockwaves around the world. Case in point, the 2008 global financial crisis which saw widespread economic hardship in countries as far away from the US as Iceland.

The global economy is interconnected in a way that is unprecedented in human history. Just imagine the Internet, but limited to financial transactions. At the core of this vast financial web is the US Dollar. The United States Treasury essentially a de facto global Central Bank. A large part of the ability of the United States to maintain its dominance in the world is down to the Dollar standard. This is a form of centralization that is being massively disrupted by cryptocurrency operations.

With the emergence of Bitcoin and all the over 1,000 cryptocoins, financial transactions are being decentralized on a massive scale. These decentralized transactions have no recourse whatsoever to the US Dollar. This changes the dynamics of international trade, foreign relations, diplomacy, and the impact of economic sanctions. There have always been attempts to "de-dollarize" the global economy and cryptocurrencies seem to be a veritable means of achieving that goal.

Countries like Russia and Venezuela have considered creating State-owned cryptocurrencies. In December of last year, the Venezuelan President announced the launch of an oil-backed cryptocurrency to help move the country out of a crippling inflation brought on by US-led economic sanctions. This provision of an escape route for nations out of stiff economic sanctions and back into the global economic theatre is a massive attack on the dollar. North Korea is another country that has tried to use cryptocurrency to get out of tough economic sanctions.

The ecosystem of the mainstream financial environment, international transfer transactions require entities like clearing houses, banks, and SWIFT. SWIFT stands for Society for Worldwide Interbank Financial Telecommunication. It is an organization that provides a network for financial institutions all over the globe to transmit information to each other in a safe and secure network. Think of it like WhatsApp, but for banks and other financial institutions. No international money transfer can happen outside of the SWIFT network. There are transaction fees and it takes several days for some transactions to be processed.

In steps Bitcoin, Litecoin, Dash, and all the other transfer protocol cryptocurrencies and the suddenly the environment becomes different. The middleman is no longer required for authorizing and authenticating transactions. The transaction fees are minimal, as low as a couple of cents in some of these cryptocurrencies. Not to mention, the added allure of anonymity and privacy that is associated with cryptocurrencies. Just when you thought that was all, you then realize that transactions occur in a matter of seconds and minutes.

By cutting out the middleman in the payment processing market, cryptocurrencies are causing a huge disruption to the global payment system. One of the reasons for the centralized payment processing protocol is to prevent funding for money laundering, terrorist activities, and illicit trade in drugs and ammunition. With cryptocurrencies, it becomes that much harder to trace transactions and ascertain the identities of the participants. Central banks and other financial institutions seem to have no control over its operations. In September of 2017, Christine Lagarde, head of the International Monetary Fund (IMF) warned that cryptocurrencies have the potential to disrupt the Central Banking system and to revolutionize the concept of money.

Just as you can't talk about the impact of blockchain technology without mentioning cryptocurrencies, no serious accounting of the impact of cryptocurrencies would be complete without making mention of Initial Coin Offerings (ICOs). In 2017, ICOs have become the leading crowdfunding method for technology-based start-ups. No longer do developers and entrepreneurs want to spend time trying to convince venture capitalists, banks, and angel investors to put up equity in their start-ups. These days, once a seemingly tangible idea is conceptualized, it is tokenized and sold to the public directly.

This has led to the proliferation of multiple technology-based start-ups that most probably would never have seen the light of day. Instead of being stuck in the proverbial “development hell” for decades, these projects are now in active development and bug-testing phases with millions of dollars in investment funding already secured.

Such has been the massive spike in ICOs that it has become one of the core focus of government agencies around the world. China banned ICOs in late 2017 and the SEC issued a ruling some ICOs were in fact securities. Many countries have placed tighter restrictions on ICO. If it wasn’t disrupting the market, it wouldn’t cause this much of an uproar

Major Parties Involved

Organisations

The European Union

The European Union has passed no specific legislation relative to the status of bitcoin as a currency, but has stated that VAT/GST is not applicable to the conversion between traditional (fiat) currency and bitcoin.

VAT/GST and other taxes (such as income tax) still apply to transactions made using bitcoins for goods and services.

In October 2015, the Court of Justice of the European Union ruled that "The exchange of traditional currencies for units of the 'bitcoin' virtual currency is exempt from VAT" and that "Member States must exempt, inter alia, transactions relating to 'currency, bank notes and coins used as legal tender'", making bitcoin a currency as opposed to being a commodity. According to judges, the tax should not be charged because bitcoins should be treated as a means of payment.

According to the European Central Bank, traditional financial sector regulation is not applicable to bitcoin because it does not involve traditional financial actors. Others in the EU have stated, however, that existing rules can be extended to include bitcoin and bitcoin companies.

The European Central Bank classifies bitcoin as a convertible decentralized virtual currency. In July 2014, the European Banking Authority advised European banks not to deal in virtual currencies such as bitcoin until a regulatory regime was in place.

In 2016, the European Parliament's proposal to set up a taskforce to monitor virtual currencies to combat money laundering and terrorism, passed by 542 votes to 51, with 11 abstentions, has been sent to the European Commission for consideration. The European Commission also notably presented a "parallel" proposal aimed at preventing tax evasion techniques as revealed in the Panama Papers. In 2017 it was revealed that the proposal will require cryptocurrency exchanges and cryptocurrency wallets to identify suspicious activity

Countries

[United States Of America]

The U.S. Treasury classified bitcoin as a convertible decentralized virtual currency in 2013. The Commodity Futures Trading Commission, CFTC, classified bitcoin as a commodity in September 2015. Per IRS, bitcoin is taxed as a property.

Bitcoin was mentioned in a U.S. Supreme Court opinion (on Wisconsin Central Ltd. v. United States) regarding the changing definition of money on 21 June 2018.

If money services businesses, including cryptocurrency exchanges, money transmitters, and anonymizing services (known as "mixers" or "tumblers") do a substantial amount of business in the U.S., they are required to

- register with the U.S. FinCEN as a money services business
- design and enforce an anti-money laundering (AML) program, and
- keep appropriate records and make reports to FinCEN, including Suspicious Activity Reports (SARs) and Currency Transaction Reports (CTRs)

Seventeen other countries have similar AML requirements. As of 2018 U.S. FinCEN receives more than 1,500 SARs per month involving cryptocurrencies.

In September 2016, a federal judge ruled that "Bitcoins are funds within the plain meaning of that term". In June 2018, Supreme Court of the United States debated bitcoin future for the first time.[36] Bitcoin and similar cryptocurrencies are regulated as both currency and as a security under U.S. law.

Within the U.S. many states are also pursuing legislative/regulatory efforts to cover crypto instruments.

Bangladesh

In a statement the Central Bank of Bangladesh cited concerns over bitcoin's lack of "a central payment system" which could lead to people being "financially harmed". It invoked the provisions of the Foreign Currency Control Act of 1947 and the Money Laundering Control Act of 2012. Then, added that trading in bitcoin and other digital currencies could lead to a punishment of up to 12 years in prison.

"*Bitcoin is not a legal tender of any country. Any transaction through Bitcoin or any other crypto-currency is a punishable offense*," the bank said in an official statement last September.

The ban comes as an enforcement of sections 4,5 and 8 of the 1947 law that regulate trading in foreign currency without authorization or general permission from the central bank. Section 5 severely restricts payments did outside Bangladesh, which affect bitcoin payments.[4]

Timeline of Key Events

Date	Description of Event
18 August 2008	Nakamoto Satoshi created bitcoin.
5 January 2017	Bitcoin is worth around $800, -.
17 December 2017	Bitcoin hit $19,783.21, the highest it had ever been.

Possible Solutions

The bitcoin scalability solution that seems to be getting the most attention today is the idea of increasing the current block size limit. As it stands right now, the number of transactions that can be included in a new block is limited by the 1 MB block size limit. While leaving this limit where it is would not create a problem for the level of decentralization found in bitcoin, it could cause an issue in terms of much higher transaction costs. Because there is a limited amount of space in each new block, bitcoin users would eventually have to bid against each other in order to get their transactions confirmed in a timely fashion.

Of course, raising the block size limit too high could make it harder for some users to run a full node, which brings more centralization into the system. Some bitcoin developers are also concerned that raising the block size limit is essentially kicking the can down the road for another day. These developers would like to see more progress in the other scalability solutions before settling on another increase in the block size limit.[5]

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