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GROUP OF 20 STUDY GUIDE

Letter from the Executive Board:

Dear delegate,

It is a matter of extreme honor for me to be able to give back to this prestigious conference in the capacity of the Chairperson of G20 and I assure you that being a part of this legacy in any capacity is cherish able.

G20 is not exactly the most conventional international diplomatic forum usually simulated at a Model UN conference and this comes with its own pros and cons. You are expected to exploit the lack of rigid frameworks regulating the functioning of this body, and at the same time be wary of the lack of enforceability that this flexibility brings along with it.

The agenda is of utmost contemporary importance and is not deemed with the virtue of being an urgent problem by other international bodies so far. The G20, being an amalgamation of countries having extreme relevance and reverence in such institutions, could pave the way for the world to take note of how important regulation in cryptocurrencies is.

The agenda being one of extremely wide ambit cannot be fully covered in this study guide. The study guide only aims to act as a starting point for your research and is in no way exhaustive. Delegates are expected to understand the basic functioning of both the organization and the technology to suggest solutions that help overcome the hurdles faced by policymakers.

A good trick to efficiently understand the technicalities would be to rely on documentaries and other such video content to have a primary understanding. Feel free to use the bibliography as suited to your needs. You could reach out to me at the email ID given below if there are any queries that need to be resolved.

Best,

Abhishek Patil

Chairperson

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What is the G20?

The Group of Twenty (G20) is a leading forum of the world's major economies that seeks to develop global policies to address today's most pressing challenges. The G20 is made up of 19 countries and the European Union. The 19 countries are Argentina, Australia, Brazil, Canada,

China, Germany, France, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States.

How does the G20 work?

The work of the G20 is generally divided into two tracks:

The Finance track comprises all meetings with G20 finance ministers and central bank governors, and their deputies. Convening several times throughout the year, they focus on financial and economic issues, such as monetary, fiscal and exchange rate policies, infrastructure investment, financial regulation, financial inclusion and international taxation. The Sherpa track focuses on broader issues such as political engagement, anti-corruption, development, trade, energy and climate change, gender equality, among others. Each G20 country is represented at these meetings by its relevant minister and by its designated sherpa, or emissary. The sherpa engages in planning, negotiation and implementation tasks on behalf of the leader of their respective country. Each sherpa guides their minister and head of State or Government accordingly on the progress of the G20, and delegates dialogue and topics to relevant working groups.

The current G20 engagement groups are the following: Business 20 (B20), Civil 20 (C20), Labour 20 (L20), Science 20 (S20), Think 20 (T20), Women 20 (W20) and Youth 20 (Y20). The regulation of cryptocurrencies comes under B20.

How cryptocurrencies function?

A cryptocurrency is a digital medium of exchange. Just like normal fiat currencies (such as the Euro and the US Dollar), the value of this 'virtual money' can rise or fall depending on the frequency with which these coins are exchanged over the internet. In the last few years, this whole system has gained enormous attention through the internet, because of the immense amount of freedom the users of this currency have concerning privacy and government regulations.

Bitcoin

Bitcoin is the most commonly used software-based payment system. The idea of this cryptocurrency was introduced in 2009 by Satoshi Nakamoto and it works on a 'peer to peer' basis, this means they can be directly shared and transmitted through computers and even phones. It is a decentralised payment system that exists virtually and is unlimited by the constraints of countries, government or time. Bitcoins allow users to instantly transfer massive amounts of money to any part of the world with negligible transaction fees (unlike credit cards and wire transfers), while also ensuring near- complete anonymity and preventing loss of money due to unstable exchange rates while changing currency. Also, in an age where privacy is a fast-disappearing luxury, Bitcoins allows its users a relatively superior level of privacy (although not quite as untraceable as cash as it leaves a trail on the Bitcoin network). Many people are already starting to use Bitcoins as an alternative to their official national currencies which are stymied by inflation. Owning Bitcoins is also very safe; each user has a Bitcoin 'wallet' on his electronic device, the sending of Bitcoins can only happen when one accesses his wallet from that particular device, this significantly reduces the risk of thefts, fraud, etc. One doesn't have a Bitcoin account online, where you can log in and access your Bitcoins, that is how PayPal works

not Bitcoin. We can think of Bitcoins as a file, like any other .mp3 or .pdf file, and each Bitcoin file will have a code which is unique; and one can think of the wallet which stores the Bitcoins as a folder (again with every wallet having a unique code), not unlike any other Music or Documents folder on your computer. And the Bitcoin network can be thought of as the logbook which keeps track of which files were transferred from where to where, the network will make sure that Bitcoin files can't be duplicated and it keeps track of which wallet owns a particular Bitcoin file. So when one sends Bitcoins to another wallet, a chunk of Bitcoin files XYZ are merely transferred from wallet A to wallet B and the Bitcoin network keeps track of the transaction; so now the network knows that Bitcoins XYZ are no longer in wallet A's possession and so any attempt by A or any previous holder of XYZ to duplicate that Bitcoin file and send it over to someone else will be thwarted by the network and now only wallet B can send it to someone else. And since each Bitcoin is, at the end of the day, only a series of 1's and 0's (computer code) linked to the Bitcoin network over the internet, it is 'virtually' impossible to counterfeit Bitcoins.

The need for regulation

Amid growing interest from the public, cryptocurrencies are increasingly perceived as investment opportunities. They are particularly attractive in high inflationary environments, which has encouraged an expanded use of digital currencies in countries such as the Bolivarian Republic of Venezuela. The rapidly growing price of digital currencies, without a sound valuation method underpinning this price, raises concerns about a mismatch between the perceived and actual levels of risk associated with cryptocurrencies, and the potential formation of price bubbles.

Valuation of digital currencies might seem straightforward, as the price is determined directly by supply and demand in the market. However, digital currencies lack any form of underlying fundamentals to guide the market-determined price. "Traditional" asset classes, such as stocks or bonds, can be valued based on the cash flows that they generate. The profits that a company is expected to generate underpin the price of its shares. Commodities are linked to their cost of mining, and available supply, and the demand for their use as inputs into final products. In a similar way, real estate prices are guided by supply and demand of housing, as well as the cash flow of rents. Finally, currency prices can be linked to the value of produced goods and balance of payment positions of particular countries. In contrast, the valuation of a cryptocurrency cannot be grounded in such underlying fundamentals. Supply of digital currencies rises very slowly, restricted by the governing set of rules as well as available hardware and energy supplies, so that prices are determined largely from the demand side. This leaves the valuation prone to sudden changes and high volatility. Another key area of concern is the possible misuse of cryptocurrencies for tax evasion, money laundering, and funding of illegal activities, given their ability to bypass formal banking networks and cross-border capital flow controls.

While there are still no widely-agreed policies governing cryptocurrencies, many governments have started to introduce national regulations related to taxation, money laundering and other similar issues. The United States of America and the European Central Bank began accepting cryptocurrencies as virtual currencies a few years ago. More recently, the Islamic Republic of

Iran had started preparations for widening their use as one of the legal payment methods. In Ukraine, recently introduced draft legislation defines cryptocurrencies as legal property, which can be exchanged for goods and services, and suggests taxing them. The legislation also addresses cryptocurrency mining—a computing-intensive process creating new digital currency units—stating that the gains are also subject to taxes. By mid-2018, the Russian Federation is expected to adopt legislation determining the status of cryptocurrencies. In contrast, serious restrictions have been imposed on cryptocurrencies in China. At the same time, both China and the Russian Federation are exploring the possibilities of issuing their own sovereign digital currencies.

It remains unclear whether cryptocurrencies in their current form will continue to grow at such a rapid pace going forward. Nevertheless, the potential development of new sovereign digital currencies, continuous evolution of the existing digital currencies, and the rapidly growing application of the blockchain technology in other areas, suggests that the use of cryptocurrencies will continue to expand. While cryptocurrencies still account for only a tiny fraction of global monetary transactions, the policy implications will need to be carefully monitored as they become more widely used. If they were to eventually reach a scale that impacts demand for national currencies, this could impact the level of domestic deposits at commercial banks, and ultimately central bank balance sheets and the transmission of monetary policy.

Previous attempts at International Regulation

In a radical report made in 2009, the UN Conference on Trade and Development (UNCTAD) has said the system of currencies and capital rules which binds the world economy is not working properly, and was largely responsible for the financial and economic crises. It added that the present system, under which the Dollar acts as the world's reserve currency, should be subject to a wholesale reconsideration. "Replacing the dollar with an artificial currency would solve some of the problems related to the potential of countries running large deficits and would help stability," said Detlef Kotte, one of the report's authors. Bitcoins might be the artificial currency which the UNCTAD were looking for. It is this committee's duty to decide whether or not Bitcoins are the next global currency which can resolve the economic crises; and it is up to this committee to come up with solutions on how to regulate and enforce those regulations on this new type of digital currency and to take comprehensive steps to tackle all the issues which nations have about this cryptocurrency and decide what role it will play in world's future, if any at all.

There have not been any joint attempts to resolve the issue of cryptocurrencies and this topic has not been extensively discussed at the United Nations. Although countries have been trying to regulate cryptocurrencies and pass laws related to it, there have been no attempts to cooperate with other countries to resolve this issue. International cooperation is needed if we are to successfully make cryptocurrencies viable and free of all its current vices.

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