THAIMUN

Economic and Financial Council (ECOFIN)

The Question of Formulating Strategies for Debt Relief and Economic Stability in Developing Economies

The Question of the Impact of Digital Currencies and Cryptocurrency on Global Finance

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Introductory Letters:

Kush Natani

Greetings delegates! I'm Kush (yes, like the thing you're thinking of) and I'm so happy I get to be your chair for THAIMUN XI. As a senior at International Community School (ICS), I've attended 14 conferences, received 8 awards, organised 2 conferences, and participated in 3 past THAIMUNs, with this being my 4th and final one. While I'm a big proponent of MUN (it even got me into my dream university!), I love spending my time doing a multitude of hobbies. As a self-proclaimed artist, I usually spend my time using 35mm film cameras. Shooting photos, finding and fixing old cameras, and developing my own film with my limited chem knowledge is my favourite pastime, and I could go on about it for hours. I also collect my favourite albums on vinyl (if you're a Last Dinosaurs, half●alive, or Run The Jewels fan hit me up), watch and create a lot of indie films, write a lot of poetry, and play a LOT of video games. I love spending time with awesome people, and, if you're reading this, you're clearly awesome :)

If you have any questions, don't hesitate to contact me at kushnatani24@gmail.com! I am chronically online.

Sasikan (Gammie) Jungpaibul

Hi everyone! My name is Sasikan Jungpaibul and I go by the nickname Gammie. So here's my resume and why I am qualified (enough) to chair for you all :) I am a sophomore (grade 10/year 11) at International Community School (ICS) and I have attended 8 conferences (this being my 9th), received 5 awards, chaired twice before, and been a parliamentarian once. Other things that I do in my free time (when MUN isn't taking up all my weekends) include sleeping, reading, listening to music, watching Netflix, playing instruments (flute, khim, and khlui), and running. Feel free to ask me any questions, at any time (chances are I'll see your messages because I'm chronically online). Contact me at gammiegamm@gmail.com or on my Instagram @gammiegamm. I am honoured to be chairing for everyone and I look forward to the conference, good luck!

Committee Overview

Formed in 1945, the United Nations specializes in promoting collaboration and joint policy amongst member states. Within the broader general assembly lies the Economic and Financial Committee (ECOFIN), tasked with addressing world-wide economic and financial issues. Examples of the topics covered by ECOFIN include sustainable development, financial development, and macroeconomic policies. The current session, chaired by Her Excellency Lachezara Stoeva of Bulgaria, focuses on specific issues including macroeconomic policy and interdependent globalization, implementation of the New Urban Agenda (a new universal framework of actions regarding sustainable housing and urban development), and expanding economic issues to discuss current conflicts in the Middle East. The United Nations' Second Committee is currently in its 77th session and is expected to take on roughly 38 draft proposals, all dealing with economic affairs throughout the world today. However, these issues stretch far beyond the confines of the economy; the topics discussed within ECOFIN chambers apply to virtually every aspect of modern life, including access to food, water, and shelter, humanitarian rights in war-torn countries, and the creation of new technologies.

Resource: https://www.un.org/en/ga/second/

Topic 1: The Question of Formulating Strategies for Debt Relief and Economic Stability in Developing Economies

TOPIC INTRODUCTION:

Debt and economic instability endure as part of the many challenges countries face, specifically developing countries and their economies. Economic stability can be achieved through constant output growth and low and stable inflation. While striving for economic stability, developing economies require many financial investments. These economic investments, especially for developing economies, can lead to debt. High levels of debt (debt overhang) make it so that a country can not take on any more additional debt, which hinders economic progress. This vicious cycle developing economies face, makes it imperative to have strategies for debt relief and economic stability.

The United Nations and other governing bodies have had much experience dealing with debt crises. Current strategies for debt relief include international cooperation keeping in mind the definition of sustainable development, the differences in short-term and long-term goals, and global finance intricacies.

KEY TERMS:

Term	Definition
Debt Relief	Reorganisation of a borrower's debt to make the debt easier to repay. The creditor can also gain at least a portion of what they are owed. There are many forms, including reducing the debt, lowering the interest rate, extending the period for repayment, etc. ^1
Debt Forgiveness	Complete or partial cancellation/write-off of the remaining amount of debt. It is often given by creditors or international financial institutions to lessen financial burdens ^2
Bilateral Debt Relief	Debt relief given by one country to another, often negotiated agreements between governments, aimed at reducing the debtor country's debt burden. ^9

Multilateral Debt Relief	Debt relief is provided by international financial institutions, like the IMF or the World Bank, to debtor countries with unsustainable debts. ^10
Debt Sustainability	The ability of a debtor country to meet its debt obligations in the long term, without threatening its economic stability and development prospects. ^3
Debt Rescheduling	Restructuring the terms of an existing loan. Such as reducing payment amounts by extending the payment period and increasing the number of payments. Or by pausing payments or reducing payment amounts for a period and later increasing the number of payments. ^4
Debt Overhang	When a country's debt burden is so large that the country cannot take on additional debt to finance future projects. ^5
Credit Rating	A quantified assessment of a borrower's creditworthiness in general terms or with respect to a particular debt or financial obligation. ^6
Debt-to-GDP Ratio	The metric that compares a country's public debt to its gross domestic product (GDP). By comparing what a country owes with what it produces, the debt-to-GDP ratio indicates the country's ability to pay back its debts. ^7
Macroeconomic Stability	Macroeconomic stability exists when key economic relationships are in balance. The condition where an economy maintains stable growth, low inflation, and low unemployment. ^8

History of The Topic:

The aftermath of World War II caused significant challenges in rebuilding economies for many developing countries. The United Nations Monetary and Financial Conference in July 1994 established the first international financial institutions; the International Monetary Fund (IMF), and the World Bank. These institutions would set a standard and create subsequent initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The 1960s to the 1970s was a period when rapid economic growth occurred in developing countries. One of the main factors for this growth was developing countries increasingly borrowing from international markets. Rising interest rates along with the 1970s oil crisis led to debt accumulation and vulnerability to external shocks, especially for developing countries.

In the 1980s, triggered by high borrowing, falling commodity prices, and rising interest rates, developing countries faced a wave of debt crises. These debt crises started the calls for debt relief. Over time, many solutions arose to the problem of debt relief, some examples would be the Brady Bonds, the HIPC Initiative, and the MDRI. The MDGs and later its subsequent SDGs goals adopted by the United Nations provided frameworks for developmental efforts in developing countries. Global Financial Crises also had significant impacts on developing countries and led to declines in trade, investment, remittances (sending money in payment), compounding debt, and fiscal (relating to government revenue) challenges.

Around the early 2000s, debt relief initiatives such as the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) were created by the United Nations to provide debt relief and cancel remaining debt obligations.

International accords, shifting global financial and geopolitical dynamics, and evolving economic theories have all influenced the development of solutions for debt reduction and economic stability in developing countries.

In recent years of the economy, there have been debt reliefs in response to the COVID-19 pandemic, recently decolonized countries also have debts but so do big countries. The difference between these developing countries and already developed countries is that although they have large debts, usually the debts are approximately equal to or lower than the country's current GDP (Debt-to-GDP Ratio).

Timeline:

Date	Description
July 1, 1944	Bretton Woods Conference. This conference is officially known as the United Nations Monetary and Financial Conference. It was attended by 730 delegates from 44 nations in Bretton Woods, New Hampshire. The purpose was to agree on a system of economic order and international cooperation for the international monetary system post-WWII. This conference created the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). ^11 ^12
February 27, 1953	London Debt Agreement. Most of Germany's debt was cancelled as of February 27, 1953, which helped West Germany rebuild its economy post-WWII. ^13
1980s	Latin America Debt Crisis. Many less-developed countries were unable to pay their debt to their foreign creditors. 16 Latin American countries and 11 other less developed countries rescheduled their debts, following the announcement that Mexico

	couldn't service its debt. This caused many banks to stop overseas lending. Being cut off from bank financing caused many Latin American countries to go into deep recession, which showed the flaws of previous economic policies. The IMF and the Central Bank helped alleviate the situation. ^14
1989	The Brady Plan. Was introduced by Nicholas Brady (U.S. Treasury Secretary), and addressed debt crises by allowing developing countries to restructure their debts through Brady Bonds. Brady Bonds are sovereign debt securities expressed in USD, issued by developing countries, and backed by the U.S. Treasury bonds. ^15
1996	Heavily Indebted Poor Countries (HIPC) Initiative. Was launched by the IMF and the World Bank. It aimed to provide debt relief so that the world's poorest countries didn't face unmanaged debt burdens. ^16
2000	Millennium Development Goals (MDGs). Adopted by the United Nations, it included goals related to poverty reduction, environmental sustainability, health, and education. It provided a framework for development efforts in developing countries. ^17
2005	Multilateral Debt Relief Initiative (MDRI). This was adopted by the IMF. It provided additional debt relief to HIPC countries and cancelled remaining debt obligations to countries that have or will complete the HIPC Initiative. ^18
2007-2008	Global Financial Crisis. It originated from the collapse of the U.S. housing bubble. The financial crisis threatened to destroy the international financial system and caused the failure of several major investment and commercial banks, mortgage lenders, insurance companies, and savings and loan associations. The Financial Crisis caused the Great Recession which was an economic downturn from 2007-2009. ^19
2015	Sustainable Development Goals (SDGs). Adopted by the United Nations and the successor to the MDGs. It included a broader set of goals for sustainable development applicable to all countries. ^20

2019	Covid-19 Pandemic. The pandemic began in late 2019 and had destructive impacts on developing economies that can still be seen to this day. It caused economic contradictions, fiscal strains, and debt vulnerabilities, which led to renewed calls for debt relief. ^21

Global Reform Efforts:

The United Nations have established the HIPC Initiative and the MDRI as debt relief initiatives for developing countries.Fiscal management is crucial in ensuring a sustainable economy since many reform initiatives focus on enhancing transparency and efficiency in public finance management systems within these countries. Efforts have included promoting responsible borrowing and spending practices to avoid debt crises. ^27

Debt restructuring allows for countries that have massive amounts for debt of those that will lead to catastrophic outcomes that will affect a countries economy, Debt restructuring seeks to provide a plan that will lessen the burden of debt these countries have such as negotiating for less interest or more time. ^28

Economic Diversification has proven essential to reducing vulnerabilities to external shocks such as the COVID-19 pandemic and promoting inclusive growth. Initiatives for economic diversification have included transitioning from reliance on commodity exports to more diversified and resilient economies. This process involves investing in infrastructure required to simulate innovation and entrepreneurship across various economic sectors.^29

Institutional Strengthening is critical for building robust governance frameworks and institutions capable of effectively implementing development policies. These efforts focus themselves on reducing trade barriers, enhancing market access, and facilitating foreign direct investment. By promoting these qualities, governments can and have stimulated economic growth and fostered technological innovation. Examples include Denmark's move towards STEM proliferation and encouragement in schools to think forward-minded.^30

Trade and investment promotion focus on enhancing international trade relations and encouraging investment flows across borders. According to the study on trade promotion, various strategies are employed to facilitate trade, including reducing tariffs, simplifying customs procedures, and harmonizing trade regulations. Additionally, initiatives such as trade agreements and regional economic partnerships aim to create a more favorable environment for businesses to engage in international trade. Furthermore, investment promotion efforts seek to attract foreign direct investment (FDI) by offering incentives, improving infrastructure, and providing a stable regulatory environment. The study emphasizes the importance of trade and investment promotion in stimulating economic growth, creating jobs, and fostering development opportunities for countries around the world.^31

Human capital development aims to invest in people's education, health, and well-being to unlock their full potential and drive sustainable economic growth. The World Bank's Human Capital Project (HCP) focuses on measuring and improving countries' human capital outcomes through various interventions. According to the HCP brief, investing in human capital is essential for building a skilled and productive workforce, reducing poverty, and promoting social inclusion. Initiatives such as education and healthcare reforms, social protection programs, and skills development initiatives play a crucial role in enhancing human capital development.^32

Corruption and Governance Reform reform aim to strengthen institutions, promote transparency, and combat corruption at national and international levels. According to the article on corruption, corruption undermines economic development, erodes public trust in institutions, and hinders efforts to achieve sustainable development goals. Reform initiatives focus on implementing anti-corruption laws, enhancing accountability mechanisms, and promoting ethical behavior in both the public and private sectors. Additionally, governance reform efforts seek to improve the efficiency and effectiveness of public institutions, reduce bureaucratic red tape, and promote good governance practices.^33

Questions to Consider

- How can bilateral debt relief agreements be structured to ensure fair and effective reduction of debt burdens for developing economies?

- What mechanisms can be established to facilitate multilateral debt relief initiatives and coordinate efforts among international financial institutions and creditor nations?

- How can debt forgiveness programs be implemented in a manner that promotes debt sustainability and encourages responsible fiscal management in recipient countries?

- What criteria should be used to assess the eligibility of developing economies for debt relief and forgiveness, taking into account factors such as debt-to-GDP ratio, credit rating, and macroeconomic stability?

- How can debt rescheduling arrangements be utilized to provide temporary relief to countries facing liquidity crises while maintaining long-term debt sustainability?

- What strategies can be employed to address the issue of debt overhang and prevent it from stifling economic growth and development in heavily indebted countries?

- How can credit rating agencies contribute to efforts to promote debt relief and economic stability in developing economies, and what role should they play in assessing the impact of debt relief initiatives?

- What policies and measures can be implemented to improve debt transparency and enhance the monitoring of debt sustainability indicators in developing economies?

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Topic 2: The Question of the Impact of Digital Currencies and Cryptocurrency on Global Finance

TOPIC INTRODUCTION:

The interviewee background at the WEF Davos Annual Meeting 2023. Copyright: CoinDesk

As the world increasingly moves towards digital banking, the ever-remaining question of purely digital tokens, currencies, and exchanges confuse average workers and developed nations alike. While the global economy has largely relied on physical reserves of currency to participate in exchanges and trades, the reliance of online-only blockchains has resulted in a larger digital divide between the financially well-versed and the financially illiterate.

One of the appeals of many of these currencies is the lack of dependence on government-operated banks and reserves^1. In the past, governments have relied on their central bank to oversee the devolution of power in regards to financial transactions and fraud prevention. With the invention of digital currencies and unregulated blockchains, however, these central banks have lost the 'grip' they held on these transactions. Fraud, market manipulation, and scams are prevalent across every sort of financial system, but the lack of regulation on the digital front highlights these rampant issues and leads to a worse reputation for digital currency. As these issues overtake online discussion, nations worldwide scramble to form legislature for an increasingly valuable market. Over this section of the chair report, issues will be highlighted in accordance to how the chairs see the problem should be tackled upon in resolutions.

KEY TERMS:

Term	Definition
Bitcoin and other Cryptocurrencies	A form of currency that exists digitally or virtually and uses cryptography to secure transactions. Cryptocurrencies don't have a centralised authority, rather using a decentralised system (usually a blockchain) to record transactions and issue new units.^2
Blockchain Technology	An advanced database mechanism that allows transparent information sharing within a network, It stores data in blocks that are linked together in a chain. The data stays chronologically consistent because the data in the chain cannot be modified without a complete consensus from the network. This technology can be used to create an unalterable ledger for orders, payments, accounts, storage, and other transactions.^3
Financial Decentralisation	As opposed to centralised systems, such as a central bank, regular bank, or brokerages, the idea of financial decentralisation relies on empowering individuals with peer-to-peer (P2P) transactions. The goal of this idea is to allow for accessibility, low fees, security, transparency, and autonomy.^4
Cryptocurrency Regulation	Regulations for cryptocurrencies are the legal and procedural frameworks that governments and international bodies enact to shape aspects of digital assets. While some regulations may address the trade of cryptocurrencies, other regulations can be designed to support users or ban cryptocurrency altogether.^5
Central Bank Digital Currencies (CBDCs)	A form of digital currency issued by the central bank of a nation. They are similar to cryptocurrencies, but the value is fixed and assigned by the central bank and equivalent to the nation's fiat currency.^6
Payment Innovations	As the world evolves and progresses, advancements in technology are needed, and the financial sector is no stranger to this. Payment solutions are defined as any financial technology (FinTech) solution that offers a new or unique way to pay for a product/service with the aim of making the experience more convenient for the vendor/customer.^7
Financial Inclusion	The act of making sure individuals and businesses have access to useful and affordable financial products and services that meet their needs delivered in a responsible and sustainable way. Access to a transaction account is the first step towards broader financial inclusion since an account allows people to store, send, and receive payments. Account holders are able to facilitate day-to-day living and help families plan for their futures.^8

Smart Contracts	A self-executing contract that automates the actions required in an agreement or a contract. Once completed, the transactions are trackable and irreversible.^9
Market Volatility	Describes when a market or security experiences periods of unpredictable, and sometimes sharp, price movements.^10 Often, cryptocurrencies are referred to as purely volatile markets.
Cross-border Transactions	Transactions sent from one country and received in another. Transfer fees, bank fees, local currency, foreign currency conversion rates, exchange fees, and international credit card fees may apply to these transactions.^11

THE HISTORY OF CRYPTOCURRENCY:

Bitcoin's White Paper

In 2008, a white paper by Bitcoin's mysterious creator (pseudonym Satoshi Nakamoto) described, in perfect detail, the blockchain system that would regulate the crypto market for years to come. The paper detailed 10 core concepts^12:

1. **Block**
    - Group of Bitcoin transactions over a certain period of time. The transactions are verified by 'miners' who are rewarded for verifying the recent transactions with newly created Bitcoin.
2. **Bitcoin Units**
    - Each Bitcoin is divisible up to 8 decimal places.
3. **Transaction**
    - A computer directive styled as "payer X sends Y Bitcoin to receiver Z."
4. **Blockchain**
    - Described above in the "Key Terms" section.
5. **Mining**
    - Independent individuals or groups complete intensive and costly computer calculations to create a block of Bitcoin.
6. **Block Hash**
    - Mining activities that use a record-keeping service (hashing) to validate the available Bitcoin. It ensures that all miners are rewarded uniformly.
7. **Blockchain Address**
    - A sequence of characters that provide the exact location required to send Bitcoin to a certain individual. No personal information is used in the creation and name of the address.

8. **Wallet**
   - A digital collection of the credentials necessary to transact coins.
9. **Keys**
   - Credentials stored inside of the wallets. Public and Private keys are used to identify which coin belongs to who/where.
10. **Cold Storage**
   - Private keys that are stored offline in places like hard drives or USB sticks to help avoid losing them or exposing them to a security breach.

The creation of Bitcoin led to a boom of other cryptocurrencies (referred to as a whole with the term "Altcoins") being created in a short time period, such as Litecoin and Namecoin.^13 While both never reached the heights of Bitcoin's valuation, they were proof that Bitcoin's white paper was capable of producing a multitude of different cryptocurrencies.

Cryptocurrency Bubbles, Booms, and Winters

As described before, the cryptocurrency market is incredibly volatile and prone to numerous highs and lows. As opposed to traditional stocks, there is no centralised power to ensure that the valuation of certain currencies goes below a minimum or above a maximum. With this, the market has experienced 'bubbles' in these years^15:

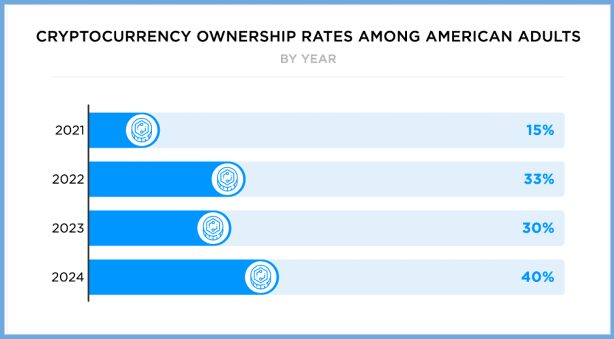
- 2011
- 2013-2014/15
- 2017-2018
- 2021-2023

The first two bubbles were relatively shallow in the grand scheme of the market, and while these rises did prove that crypto was here to stay, it didn't gather the same appeal from the public as economies were recovering from the 2008 housing crisis.

The latter 2 bubbles have experienced the most widespread attention from individuals and media sources alike. In the 2017-2018 period, Bitcoin suddenly surged to a price average of $20,000 per coin. After a series of scams and international pressure from governments such as Brazil and China, the price fell to a measly sum of $800-2,000 per coin.^13 The periods in-between a bubble is referred to as a 'winter' and is used to signify that the volatile market has seasons, and that focusing on the downfall of the market is useless as the market will 'always come back up.'

The latest bubble, 2021-2023, was marked by its rampant usage of non-fungible tokens (NFTs), artificial intelligence (AI), and the shortage of computer parts in foundries and the general public alike. This period, however, was ended with the movement of the 2nd biggest crypto coin, Ethereum, switching from a mining-based system to a verification-based system. This killed the mining market and value of Ethereum alike, shooting the market right in it's foot and causing another so-called winter.^14^15

From Unknown to Infamous



As the influence of cryptocurrency on global economies grew from pitiful to impactful, public perception towards cryptocurrency grew more divisive.

According to multiple studies conducted in the United States by Security.org from 2021-2024^31, over 80% of respondents stated that they were aware and involved with cryptocurrency and its developments. Personal cryptocurrency ownership has risen from 15% at the beginning of the pandemic to 40%, which has resulted in confidence of the medium improving from 2021's 36% to the current rating of 56%. On the other side of the coin are those with negative perceptions on crypto, with 44% of non-owners stating that they have not invested and will never invest in cryptocurrency. The three biggest concerns they have indicated is due to its unstable value (40%), its lack of government or bank protection (26%), and difficulty trusting crypto exchanges (14%). ^32

Looking at another study conducted in 2017 by researchers at Thammasat University in Thailand, South-East Asian investors have stated that they are more willing to invest in the cryptocurrency market in comparison to regular markets because of the ease of access^33. Exchanges made for personal use regularly use Know-Your-Customer authentication systems, which use easily accessible documents to verify the authenticity of customers. This lets people from every economic background, regardless of the digital divide, access a growing market using the devices they already own.^33

Case Study: The Collapse of FTX

FTX, a cryptocurrency exchange based in the Bahamas but ultimately operating in the US, collapsed over the span of half a month in November of 2022. FTX was the 2nd largest exchange, just behind Binance, where they mainly operated using FTT tokens, created under their own subsidiaries.^38 On November 2nd, Alameda, a corporation separate from FTX but ran by the same CEO, Sam Bankman-Fried, had their balance sheets checked by CoinDesk. This audit resulted in the discovery of $3.66 billion in 'unlocked FTT', and another $2.16 billion in 'FTT collateral'. This proved that Alameda and Bankman-Fried were using extra FTT tokens from FTX as insurance for their personal loans. When this was made public, Binance announced that they were selling all of their FTT stock from their exchange and removing it from the platform entirely. As more information regarding the private lives of C-suite employees at FTX came out, the more FTX started losing money (although it has been proven that it has been bleeding customer money and lying about it for months beforehand). Within 9 days, FTX had declared bankruptcy and sold the remainder of its assets.^38

TIMELINE:

Date	Description
1983	David Chaum comes up with a type of cryptographic electronic money called “Ecash”, later renamed to “Digicash.” Essentially, Digicash is a proof-of-concept of individualised and encrypted digital keys that can track specific amounts of money.^17
1996	The US National Security Agency publishes a paper that describes a cryptographic financial system. It gets published in an MIT mailing list.^18 Notably, this is the first time that a government agency mentions any semblance of cryptography being used in finance.
1998	Wei Dai describes “B-money”, an anonymous electronic cash system that required a proof-of-work function (similar to how blocks in the blockchain require miners to verify transactions).^19
October 31, 2008	Bitcoin’s white paper gets published by a mysterious individual going by the pseudonym Satoshi Nakamoto on a cryptography mailing list called Metzdowd.^16
August 6, 2014	The United Kingdom announces that the Treasury has studied the role of cryptocurrencies in the market and economy. The final report was published in 2018 and brought forward to the Parliament in 2021.^14
June 10, 2021	El Salvador became the first country in the world to recognize Bitcoin as a legal form of currency after the Legislative Assembly voted 62-22 to pass a bill stating how the coin will be used in the central bank and everyday citizen activities.^20
August 27, 2021	Cuba regulates and recognises cryptocurrencies and Bitcoin as a part of the central bank, following in the footsteps of El Salvador.^21
September 24, 2021	China declares all cryptocurrency transactions illegal. As China was the largest market for a decentralised currency to thrive, many markets suffered, especially the mining markets.^22

September 15, 2022	Ethereum, the world's second largest cryptocurrency, switches its consensus mechanism (creation algorithm) from proof-of-work (which is what Bitcoin uses) to proof-of-stake in a process referred to as The Merge. While this had positive effects on the environment, resulting in an emissions decrease of 99.9%, it led to the value of Ethereum falling from $4,000 a coin to $1,200 a coin.^23
November 11, 2022	FTX, a cryptocurrency exchange, filed for bankruptcy. Seeing as it was the 2nd largest exchange network, many users were left with empty pockets as the decentralised nature of the coins meant that there was no legislature in place to help investors in a time of need. As a result, the United States (where FTX was incorporated) passed an emergency order through the FDIC to provide aid to those who were invested in FTX and its assets. This event directly caused the largest outcry for international standards to be set for cryptocurrency exchanges and the level of transparency they must indicate.^24

GLOBAL REFORM EFFORTS:

The United Nations itself has not directly acted upon the regulation of cryptocurrency exchanges, instead relying on their financial branch, referred to as the International Monetary Fund. In addition, international financial councils, organisations, and committees independent from the United Nations have strived and succeeded to create legislation surrounding cryptocurrency.

The International Monetary Fund (IMF)

Considering how new the crypto market currently is, regulators are finding it difficult to acquire the talent and learn the skills required to monitor such a patchy and anonymous market. In addition to these difficulties, the wide definitions of terms such as "crypto asset", which could be used to describe any cryptographically encrypted technology, has confused the way regulators must define this emerging industry. The IMF has stated, "the electronic life cycle of crypto assets amplifies the full range of technology-related risks that regulators are still working hard to incorporate into mainstream regulations," (Narain, 2022). In essence, the field innovates at such a rapid pace that governments are struggling to keep up.

In September 2022, the IMF called for a global response to the UNCTAD^25 that is:

1. Coordinated, so it can fill the regulatory gaps that arise from inherently cross-sector and cross-border issuance and ensure a level playing field.
2. Consistent, so it aligns with mainstream regulatory approaches across the activity and risk spectrum.
3. Comprehensive, so it covers all actors and all aspects of the crypto ecosystem.

The Financial Stability Board (FSB)

The FSB is an international organisation created at the 2009 G20 Summit as a spiritual successor to the Financial Stability Forum. Historically an organisation which acts upon fintech issues at a rapid pace, released a regulatory framework for crypto-assets, with the newest iteration being released in July 2023. This framework focused on addressing risks to financial stability in relation to crypto-asset activities, with specific instructions that CBDCs are not subject to these recommendations due to the FSBs labelling these coins as 'digitalised central bank liabilities'^30.

In addition, the IMF and FSB worked on a joint paper that synthesises the findings from the IMF's work on researching macroeconomic and monetary issues with the FSB's supervisory and regulatory issues associated with crypto-assets^31. This paper includes a roadmap that ensures "effective, flexible, and coordinated implementation of the comprehensive policy framework for crypto-assets." (Financial Stability Board, 2024)

The Financial Action Task Force (FATF)

The goals of the FATF is to set standards and to promote effective implementation of legal, regulatory, and operational measures for combating threats towards the international financial system.^27 Its focus on virtual assets has been swift, with their first ruling on issues regarding money laundering from CBDCs and stablecoins.^28 The 2019 ruling stated that stablecoins, which are non-volatile and backed by another standard (such as the central bank's reserves), are subject to FATF standards and are subject to monitoring from the FATF and their subsidiaries.^28

After monitoring the situation for a year, the FATF met at the G20 to announce a report of virtual assets and 'red flag' indicators.^26 This report, meant for FATF members and independent parties alike, focuses on looking out for indicators of unsafe crypto practices. Key indicators include:

- Technological features that increase anonymity, such as the use of P2P exchange websites or anonymity-enhanced cryptocurrencies
- Geographical risks
- Transaction patterns of the irregular, unusual, or uncommon type
- Transaction size with no logical business explanation

- Suspicious sender or recipient profiles with unusual sources of funds or wealth which could closely relate to criminal activity

The International Organization of Securities Commissions (IOSCO)

The IOSCO, on the 16th of November, 2023, submitted the newest iteration of their Policy Recommendations for the Regulation of Crypto and Digital Assets. The 18 policies proposed in this paper cover 6 key areas, consistent with previous IOSCO standards^29:

1. Conflicts of interest arising from vertical integration of activities and functions
2. Market manipulation, insider trading and fraud
3. Cross-border risks and regulatory co-operation
4. Custody and client asset protection
5. Operational and technological risk
6. Retail access, suitability, and distribution

These key areas were created with guidance and participation from the IMF and the FSB, showcasing one of the other few moments where these largely overlapping organisations shared their specialisations and skills with the IOSCO to tackle a global issue.

TOPICS AND QUESTIONS YOUR RESOLUTIONS SHOULD ADDRESS:

Below there are several topics that resolutions can include, they are placed in this background guide to help delegates focus their research. While it is not necessary to answer all of these questions in every single resolution, each resolution must at least touch on one of these topics as a central theme.

The United Nations' Role

While the IMF itself has recommended numerous guidelines and solutions to these issues regarding cryptocurrency and its effect on global finance, the United Nations and its other divisions have not. Seeing as the Economic and Financial Council at THAIMUN XI will sit to discuss this topic, it is important to note that the current relationship between differing opinions will affect how debate will occur. Many international organisations, such as the ones mentioned in the section above, have no such restrictions on the opinions and ideas shared between their members. These organisations have written their recommendations based on *their* standards, which is why they will remain recommendations that require no actionable cause. What role does the United Nations play in the regulation of digital currencies? Do they, a central body, have the right to regulate a decentralised platform? Does that align with a delegation's views?

CBDCs and Stablecoins

While CBDCs and stablecoins have been implemented at a private level in most nations, and at the public level in a few nations, the question of regulating the accountability of bad faith actors remains prevalent. As shown in the FATF report, there have been numerous case studies on the amount of corruption involved around stablecoins with a lack of accountability. As more digitised systems and fintech evolvements take place, the iron grip once held by the regulatory bodies has loosened up. Are CBDCs meant to be a replacement to the physical reserves held by a country's central bank? If so, how will that transition take place? Do CBDCs and stablecoins, both cryptocurrency types that are backed by a central authority figure, have a reason to exist to the common man?

Incentives to Regulatory Implementations and Recommendations at a Global Standard

Every country in the world runs on a constitution. A paper that, in essence, dictates the basic governance of the land. Referred to as the new 'Wild West', cryptocurrency and similar assets seems to be lacking the 'constitution' that so many countries desire to make. Will setting a global regulatory recommendation standard be effective? Clearly there already seems to be a recommendation standard, and yet there is no incentive to implement it. Can incentives from the UN help countries pass legislation to implement recommendations? Or is the threat of criminal activity from malicious parties enough?

The Openness of a Decentralised System

Governments like to have a firm grip on most aspects of life. While this is a highly contested opinion by many parties and fronts, one thing is for certain: Every government today runs on the centralisation of standards. Bitcoin; at least, the main appeal of it from the beginning; was the decentralised nature that allowed citizens the freedom to control money. As governments found themselves losing out on potential business from private corporations, they realised the importance of maintaining public opinion while still getting what they want. While CBDCs are an important innovation to the field of fintech, their existence relays an important question: are citizens getting what they want with decentralised systems? Are they guaranteed safety and wellbeing if these systems were to burn down crashing? Is the government still responsible for their citizens' financial wellbeing if they invested in a platform completely separate from their own operations?

COUNTRIES & PARTY STANCES:

Here is some baseline information on some countries that have prominent stances on this use, this research can be used to help guide delegates with the research process. Please note that country stances vary wildly

Asia

China

In 2021, China became the first major nation to outright ban crypto-assets and any exchanges participating in the trade. As a result, the Bitcoin and Ethereum mining industries quickly died out, leaving a massive vacuum in the economy for many months. As of current day, China has not and will not consider CBDCs in their economy.^36

Europe

United Kingdom

In October 2022, the House of Commons voted to give the HM Treasury (HMT) the power to make crypto-assets a regulated financial instrument. Called the Financial Services and Markets Bill (FSMB), the HMT ensures that activities such as cross-border transactions would be required to be done with FSMB standards regulated throughout. CBDCs are still being assessed as a viable option, but no concrete bills have been brought forward yet.^34

France

France has put in extensive regulatory framework specific to digital assets, both in terms of the Blockchain Order as well as the Pacte Law. Changes will occur in the future with the adoption of the MiCA, known as the Markets in Crypto-Assets Regulation. The French Monetary and Financial Code (CMF) identifies crypto-assets under regulated and unregulated, with Bitcoin falling under the former and NFTs falling under the latter. As of this time, with France being a part of the European Union, they have not implemented a CBDC into their economy, but the EU is considering it.

Latin America

El Salvador

In June 2021, El Salvador became the first nation to adopt Bitcoin as legal tender and has stated that all economic actors must accept Bitcoin as a form of payment and that the state, through the central bank, guarantees an automatic convertibility of Bitcoin to USDT. Although this decision was met with scepticism at first, the haters were, in fact, right.^37 The impact of the bubble burst in 2023 led to the citizens of El Salvador resorting to using USD for every transaction instead of the local currency.

North America

United States

Beginning from 2013, the Financial Crimes Enforcement Network (FinCEN) concluded that cryptocurrencies are a valid form of money transmission and therefore are subject to FinCEN requirements. As the market grew and the market caps of stablecoins backed by the US Dollar, such as USDT, exceeded the national threshold of importance ($50 billion), the US Congress and White House jumped into action to discuss the topic.^34 FTX lacked insurance, which caused the Federal Deposit Insurance Corporation (FDIC) to issue a cease-and-desist. FTX didn't follow and instead misled the public with claims that they were insured for customer safety.^35

Canada

The Canadian Securities Administrators' (CSA) Regulatory Sandbox was created with the intention to support fintech businesses seeking to offer innovative services, products, and applications in Canada, crypto included. Since then, over 40 crypto-asset exchanges have set base in Canada using the CSA's framework, support, and guidance. A consultation on the use of CBDCs and stablecoins was launched in November 2022, with the formal consensus being that there is no need to issue one backed by the government at the moment.^34

Oceania

Australia

In December 2021, the Australian Government announced that they were intent on establishing regulations for digital assets. In 2022, as part of a Treasury consultation, the key digital asset regulatory objectives were set as: ensuring that regulation is fit for purpose, predictable with consistent legal framework, avoiding undue restrictions, and harnessing the power of the private sector. They have issued a white paper on a potential Australian CBDC with plans to launch in 2023, which haven't occurred as of the writing of this chair report.^34

Recommended Websites to Use

Coffeezilla - Crypto-assets and Finance Youtuber who covers topics regarding crypto scams and similar schemes. Watch the entire 'FTX' playlist to learn about the biggest market collapse in recent history.

PwC Global Crypto Regulations Report 2023 - An up-to-date guide on many countries' stance on crypto regulations and interest in developing CBDCs. Gathers data from 41 major countries in different economic states.

Investopedia - Global finance news and blogging site with a focus on digital currencies.

Regulating Crypto - The IMF's current view and assessment of global crypto-assets regulation through the perspective of two specialists in the crypto-assets field.

Virtual Assets Red Flag Indicators of Money Laundering and Terrorist Financing - The FATF's guide targeted towards nations on searching for red flags in crypto-assets behaviour

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