# PORGMUN 2019

## DEFINING THE LEGAL BOUNDARIES FOR THE INTERNATIONAL USE OF DECENTRALISED CURRENCIES

**Forum: Legal Committee**

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# INTRODRUCTION

Cryptocurrency has garnered great popularity in recent years as a decentralised method of exchange to be used, with the demand increasing since the release of Bitcoin as open-source software in 2009. However, the use of cryptocurrency - particularly the extent of its legality - varies from country to country. As such, cryptocurrency stands as an issue both to the international legal system, as well as the system of economic sanctions, due to the potential ability of persons or countries to use cryptocurrency in order to evade them. As technology is becoming ever and ever more advanced, there is a need for the international community to take into account new technologies - such as cryptocurrency - and reach an international agreement on their legality, especially in regards to concerns over the plausible tax evasion, money laundering, and other issues that may arise from unregulated circulation of cryptocurrency.

# DEFINITIONS OF KEY TERMS

### Cryptocurrency

A cryptocurrency is a digital or virtual currency that uses cryptography for security. A cryptocurrency is difficult to counterfeit because of this security feature. Many cryptocurrencies are decentralised systems based on blockchain technology, a distributed ledger enforced by a disparate network of computers. A defining feature of a cryptocurrency, and arguably its biggest allure, is its organic nature; it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation.

### Blockchain

A blockchain is a digital record of transactions. The name comes from its structure, in which individual records, called blocks, are linked together in single list, called a chain. Blockchains are used for recording transactions made with cryptocurrencies and have many other applications.

**Cryptocurrency mining**

People can run software and hardware whose sole purpose is to confirm cryptotransactions. Those softwares solve cryptographic puzzles and add the transactions to the blockchain, receiving cryptocurrency as a reward.

## GENERAL OVERVIEW

**How Do Cryptocurrencies Work**

Transactions are send between users from one „cryptocurrency wallet" to another. The person creating the transaction uses the wallet software to transfer balances from one account (also known as public address) to another. To transfer funds, knowledge of a password (also known as a private key) associated with the account is needed. Transactions are encrypted and then recorded on the public blockchain. The two parties involved in the transaction stay anonymous and encrypted, however the amount paid is public. Each transaction leads back to a unique set of keys. Whoever owns a set of keys, owns the amount of cryptocurrency associated with those keys.

**Bitcoin**

The first decentralised cryptocurrency, Bitcoin, was created and released as open source software in 2009 by Satoshi Nakamoto - anonymous person or group of people. Bitcoin is completely decentralised and it does not rely on a central server. The release of the currency is scheduled and limited - there will never be more than 21 million Bitcoin, the last Bitcoin is scheduled to be issued by the year 2140. There are over 100 000 vendors all around the world who currently accept Bitcoin as a valid payment method. As all transactions are completely anonymous, Bitcoin has been linked to many black market transactions, especially on the dark web.

**Concerns**

The rise of cryptocurrencies has also caused numerous concerns. Some have seen cryptocurrencies as a viable investment option, however many have accused them of being a form of investment fraud known as Ponzi scheme. European Central Bank stated that although cryptocurrencies share some traits with Ponzi scheme frauds, some of their aspect contradict this statement.

Since all transaction data is public, people have also been concerned about privacy. All cryptotransations should be in theory anonymous, however is you could discover someone’s wallet address, you could theoretically trace all their transactions.

Great concern also comes from the common use of cryptocurrencies on the black market. The most well known deep web black market Silk Road has been linked numerous times to drug deals, document forging and weapon sales. The fact that cryptocurrencies are almost untraceable combined with the accessibility of an online marketplace, giving anyone an easy way to obtain illegal substances with very little risk of legal consequences, is why many people are concerned about cryptocurrencies.

**Legal Status**

The legal status of cryptocurrencies remains either undefined or changing in many countries. Majority of countries do not make the usage of cryptocurrencies illegal, its status as a currency or commodity has not yet been defined. There are countries that have explicitly allowed the use and trade of cryptocurrencies and there are countries that have banned the use of cryptocurrencies all-together.

## MAJOR PARTIES AND THEIR VIEWS

**European Union**

The European Union has passed no specific legislation relative to the status of bitcoin as a currency, but has stated that value added tax and goods and services tax are 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 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.

**G7**

In 2013 the G7's Financial Action Task Force issued the following statement: "Internet-based payment services that allow third party funding from anonymous sources may face an increased risk of money laundering/terrorist financing." They concluded that this may "pose challenges to countries in anti-money laundering/counter terrorist financing regulation and supervision.

## TIMELINE OF KEY EVENTS

**August 2008** - Domain bitcoin.org was registered

**October 2008** - a white-paper, "Bitcoin: A Peer-to-Peer Electronic Cash System,“ was published

**January 2009** - First-ever block of Bitcoins, also known as the Genesis block, was mined.

**9. 1. 2009** - First version of Bitcoin software was launched

**12. 1. 2009** - First ever Bitcoin transaction occured between Satoshi Nakamoto and Hal Finney

**October 2009** - New Liberty Standard publishes the first Bitcoin exchange rate $1 = 1309.03 BTC

**May 2010** - Laszlo Hanyecz sent 10 000 BTC in exchange for two pizzas, valued at a total of $25, marking the first ever actual Bitcoin purchase.

**November 2010** - Bitcoin surpassed the $1 million market cap for the first time

**February 2011** - 1 Bitcoin was worth $1 for the first time

**October 2011** - One of the first alternative cryptocurrencies called Litecoin launched

**2013** - Bitcoin passed a value of $1000 for the first time

**April 2014** - A major cryptocurrency called Monero launched

**July 2015** - A major cryptocurrency called Ethereum launched

**December 2017** - Bitcoin hit a value peak of $19,783

**January 2018** - as of now the value of Bitcoin is around $3600, changing rapidly

## QUESTIONS A RESOLUTION SHOULD ANSWER

Can decentralised cryptocurrencies be regulated?

Should decentralised cryptocurrencies be regulated?

How can decentralised cryptocurrencies be regulated?

Can decentralised cryptocurrencies be used on a global scale?

## APPENDIX

Great video, explaining in detail how cryptocurrencies work

https://www.youtube.com/watch?v=bBC-nXj3Ng4

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