Committee: General Assembly 2 – Economic and Financial

Issue: The question of the legality and use of Bitcoin

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Introduction

As technology improved, there were many methods of payment invented for convenience of the people. For instance, the use of digital currencies was one of the major technological revolutions that have enormously changed the patterns we see in the fields of commerce. The concept of digital currencies is still seen as a new phenomenon despite the introduction of new digital currencies in present days. Bitcoin is the most well-known digital currency that exists today and is gaining popularity as more countries are starting to allow the use of bitcoin for transactions.

However, despite the convenience and benefits of bitcoin there are still controversies and concerns, which stop individuals or governments from using them. As it is intangible and has unfamiliar characteristics, its effectivity is still questionable. The main reason is that it does not fulfill the functions of money (i.e. medium of exchange, unit of account, and store of value) and therefore there is a risk of it being exploited illegally. It could also arouse problems between countries when people try to exchange their assets between different nations, especially when sending and receiving remittances. Due to these reasons, there are some countries like Bangladesh that have already made the use of bitcoin illegal within their nations whereas countries like China have made regulations in regards to bitcoin but legally allowing its use. Negotiation between countries is required to agree upon a consolidated set of regulations based on the methods to control these digital currencies and the use of bitcoin globally as the number of bitcoin users is increasing annually.

Definition of Key Terms

Bitcoin

Bitcoin is a digital currency created in 2009 by Satoshi Nakamoto which is used for online transaction with no middlemen. 1 Bitcoin = $13636.40

Cryptocurrency

Cryptocurrency is a form of digital currency where cryptography is used for 3 main reasons: control of the quantity of the units, security during transactions and the verification of transferring assets, and it doesn't rely on third parties such as the government or the bank.

Bitcoin mining

Bitcoin mining is a process of releasing the bitcoin to the market for circulation and requires series of computing processes to solve puzzles to find a new block.

Blockchain

Blockchain is like a public record book of all the recent transactions of the bitcoin which cannot be edited or removed once it is recorded.

Decentralised Currency

Decentralised currency is a currency which relies on peer-to-peer network and has no central entity such as government or bank controlling the transactions.

Private Key

Private Key is a personal piece of data that proves the right to use the bitcoins in a specific wallet for transactions. It is stored in an isolated server of the wallet as it can never be revealed for security reasons.

Hash rate

Hash rate is the speed at which a new block is discovered and thus how fast the associated maths problem is solved.

Signature

Signature is a mathematical operation that allows users to show that they know the private key that is connected to the public network without showing it. It proves the ownership of a specific wallet.

Background Information

How does bitcoin work?

Bitcoin has no physical elements like coins or paper bills, therefore all activities are practiced electronically. First, people who want to make transactions using bitcoin install 'wallets' on their electronic devices such as computers, mobile phones or tablets. A wallet is an individual database that stores the information for transaction. Then, it will automatically generate the first bitcoin address of the user and whenever the user intends to conduct a transaction in the future, it will create more addresses for the transaction. The way bitcoin works is similar to how email works so in order to send or receive an amount, addresses need to be shared between the sender and the receiver. However, addresses that bitcoin uses for transactions are only used once. Cryptography, specifically public key cryptography, is used for verification. For instance, when person A sends some bitcoins to person B, a message is created, which attaches person B's public key to the amount of bitcoins sent and the transaction is signed by person A's signature with his private key. As soon as this occurs, everyone knows who the new owner of the particular amount of bitcoins is and the signature of the original owner (person A) proves that the transaction has been verified and hence it is authentic.

Legality of using Bitcoin in countries

Bangladesh

The use of bitcoin is illegal since September 2014 when a statement was published from the central bank of Bangladesh saying "anybody caught using the virtual currency could be jailed under the country's strict anti-money laundering laws". (Wikipedia)

Russia

Any currency relying on peer-to-peer network with no central entity controlling the transaction (decentralised currencies) were officially banned in February 2014, but they were made legal again in January 2015. However, there are still controversies in regards to this issue, as the deputy finance minister, Alexei Moiseev, stated that accepting cryptocurrencies for any payments should be made illegal.

Germany

The use of bitcoin is legal in Germany since August 2013 when its Finance Ministry announced bitcoin as a 'unit of account'. Consequently, it started to be used for purchasing goods and services even though necessary VAT must be paid It is recognised as 'private money', which refers to money lent to private individuals or organisations, which is why it can be used in 'multilateral clearing circles'.

USA

In 2013, bitcoin was officially categorised as a 'convertible decentralised virtual currency' by U.S. Treasury, and in September 2015, it was classified as a commodity by the Commodity Futures Trading Commission (CFTC). It is hence legal to use bitcoin for payments in United States and it is subjected to the same amount of tax. Moreover, the payer has the responsibility to report the use of it with the same requirements as other currencies.

Timeline of Events

Date	Description of event
31 October 2008	Satoshi Nakamoto created a new electronic cash system which does not require any involvement of the third party
3 Jan 2009	Mining for the first block (*block 0*) which is also known as the 'genesis block' started
8 Jan 2009	Announcement of the first version of software used for bitcoin transactions
Mar 2010	Bitcoin was practically used for the first time when a man in Florida paid 10,000 bitcoins to a man in London in order to have a pizza ordered
Feb 2011	Parity between bitcoin and US Dollar has been made. 1 bitcoin = $31
Apr 2012	Value of bitcoin hit $100 for the first time and started to rapidly increase mainly due to banking crisis and imposition of tax on every bank accounts in Cyprus
Feb 2015	Over 100,000 merchandisers accepted the use of bitcoin for the purchase of the goods. 1 bitcoin = $177
2017	Due to Japan's introduction of new regulations for digital currency and China easing their guard, world's demand for bitcoin surged

UN Involvement, Relevant Resolutions, Treaties and Events

Unfortunately, due to this issue being relatively new, there aren't many involvements made by the United Nations. There are, however, some approaches to this issue including blockchain related projects and researches initiated by 15 UN entities. For instance, the United Nations has asked for two qualified volunteers to help spreading the adoption of bitcoin in African regions through means of training and education. This programme will enable members of staff in these regions to be able to use the system which deals with cryptocurrencies (bitcoin) to accept donations.

United Nations Office on Drugs and Crime (UNODC)

Members of the UNODC have implemented a training programme to combat potential crime, which can be provoked by the use of cryptocurrencies (bitcoin) such as terrorist groups purchasing weapons or child abuse materials. In order to make the programme successful, this programme involved law enforcement experts and regional members of staff from 22 countries such as the United Kingdom, the United States of America and Norway. The course not only involves programmes to tackle any negative consequences of the usage of cryptocurrencies but also focuses on the development of skills for the users to understand the concept of Bitcoin.

World Food Programme (WFP)

WFP has started a pilot system to allow 10,000 refugees in Jordan to be entitled to buy their food using a blockchain-based system. The director of Innovation and Change Management in WFP has seen merits in using the system and said: 'Through blockchain, we aim to cut payment costs, better protect beneficiary data, control financial risks, and respond more rapidly in the wake of emergencies. Using blockchain can be a qualitative leap – not only for WFP, but for the entire humanitarian community.' (*Blockchain Against Hunger: Harnessing Technology In Support Of Syrian Refugees, WFP*) For authentication process, the system depends on biometric technology and through the implementation of this programme, refugees are able to buy food with just a scan of their retina. Depending on the result of this pilot project, WFP is planning to expand the use of such system to a wider community.

United Nations Research Institute for Social Development (UNRISD)

UNRISD sees a feasibility of blockchain and bitcoin being a medium of exchange in remittance transactions. The benefit of using bitcoin is that it has no distinct geographic area or an economy that affects the value of the currency, and therefore the unit of pricing does not exist in any economies. Although there are few concerns in regards to regulations and taxations of bitcoin, UNRISD still sees bitcoin as potential intermediary between sending and receiving countries in terms of remittance transactions. Any senders would transfer their money to bitcoins and the recipient would convert them back to their country's currency. The virtual currency would ease any severe situations in countries such as in Somalia where flow of remittances is rigid due to concerns of banks financing terrorist groups in the regions. Usage of bitcoin as the medium of remittances would create another channel of transactions available for such countries.

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