



Research Guide

G20 Kyunghee Summit 2018

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1. Committee Introduction

About

The Group of Twenty (G20) is a major international forum, which was initiated with the purpose of developing global policies and further solving world's most pressing challenges. The G20 is consisted of 19 countries, along with the European Union. These 19 nations 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. The G20 policy-making process is mostly led by the participation of key international organizations with a regular invitation; these organizations represent various sectors of the civil society.

The Origin

The Group of Twenty (G20) was firstly founded as a G7 meeting, mainly led by governors from the central bank and the ministry of finance. They emphasized the need of an inclusive body that can represent the broader sense of the international society, mainly addressing world's financial issues. However, the G7 further invited the leading markets in both developed and emerging level in order to organize a higher level of international forum: the G20.

Throughout the process, the need for consensus building has been constantly emphasized in the highest political level. Due to this aspect of the forum, G20 has become a major tool that stabilizes the world economy, and the summit itself has been attended by the leaders around the world. From then on, several additional agendas were also included to the forum, such as trade, development, and financial markets. Major agendas that the G20 touches upon are mostly related to global economic output, world population, international trade, and global investment.

2. Background

“What is cryptocurrency?”

The term “Cryptocurrency” refers to a digital asset designed to work as a medium of exchange protected by strong cryptography technology such as Blockchain technology. The world’s first public-open cryptocurrency was Bitcoin, which started service in 2009. Since then, a number of rival cryptocurrencies started service, further enlarging the cryptocurrency market.

The cryptocurrency market has emerged rapidly since then, and the number of people trading and using cryptocurrencies have increased in number in a staggering rate. Due to its idea of decentralization and reliable security, some are now even claiming that cryptocurrencies will eventually become a new alternative for the contemporary currencies that we use nowadays. More and more governments are officially recognizing the use of cryptocurrencies, further boosting the increase in popularity of cryptocurrencies.

However, despite its growing popularity, the need for cryptocurrency regulation is also increasing due to its innate drawback of decentralization and anonymity. Since there is no specific central body for cryptocurrency control, it makes the tracking of illegal transactions represented by money laundering potentially very difficult.

To combat such problem, the G20 central bankers and finance ministers gathered in Buenos Aires in July, to once again emphasize the need for cryptocurrency regulations to combat illegal uses of cryptocurrencies and the need of the FATF (Financial Action Task Force), an intergovernmental organization formed to combat money laundering and terrorist financing. The G20 nations agreed to finalize their overall cryptocurrency regulation plans by setting the deadline to October.

3. Topics of Discussion

Limitations that AML Regulation confronts in a General Level

With the growth of the cryptocurrency market, the system of crypto-assets has become quite strenuous in terms of regulation. Due to its use of alternative exchanging means that are different from the past financial platforms, it is now possible to bypass institutional intermediaries, which were often worked as the gatekeepers in global AML (Anti- Money Laundering). In addition, the system mainly works online with the absence of in-built geographic limitations, which further hinders any jurisdiction-taking place in a particular transaction relating to crypto- assets; the condition often confronts complex technical problems that lead to unquantifiable risks that cannot easily be measured nor regulated.

Despite this systematic confrontation that AML faces, the adoption of global AML standards with uniform rules being settled are still in pending. The rapid growth of cryptocurrency has led to the confrontation of considerable regulatory challenges due to its key aspect of anonymity. As a result, cryptocurrency has become the leading exchanging means when it comes to illegal financial activities, ranging from illegal trade of drugs to money laundry.

Regarding these outflows of crypto-assets to illegal trading system, certain views were raised that “cryptocurrency payment service should be subject to the same obligations as their non-crypto-counterparts.” (“Cryptocurrency AML Risk Considerations.” *Cryptocurrency AML Risk Considerations - Allen & Overy*) Greater number of concerns have led to the establishment of rules or guidance on the matter of crypto-assets; however, the line that divides the regulative measure on crypto and non-crypto means is still not clear that the global community is still on the process of providing clear legitimate regulatory system.

Issues in the financial market

1. Trafficking in Illicit Goods

The key aspect of the use of cryptocurrency is the ensurement of anonymous money flow; hence, “cryptocurrencies provide an ideal means of payment for illegal goods and services, from narcotics,

human trafficking, organs, child pornography, and other offerings of the dark web.” (“Sex, Drugs, and Bitcoin: How Much Illegal Activity Is Financed through Cryptocurrencies?” *Oxford Law Faculty*) Based on the research, Bitcoin, the most well known crypto-asset, was identified to be addressed as the major exchanging means in illegal “dark-webbed” marketplaces. It has exceeded almost \$250 billion in 2018, with several add-ups of \$400 billion in over 1,000 other cryptocurrencies. However, due to several law enforcements on dark net marketplaces, the number of activity seemed to be declining, yet the total amount of illegal activities that involve the use of bitcoin turned out to remain close to being all-time high.

2. Hacking and Identity Theft

The use of virtual wallets or VCEs (Virtual Currency Exchanges) has provided hackers to target the new financial platform for financial fraud and identity theft. Criminals “use what’s known as the dark web to facilitate large- scale cryptocurrency theft.” (Rooney, Kate. “\$1.1 Billion in Cryptocurrency Has Been Stolen This Year, and It Was Apparently Easy to Do.” *CNBC*, *CNBC*) It has been measured that there are 12,000 marketplaces and 34,000 offerings, relating to crypto theft with several possibilities of them being attacked by hackers. Furthermore, thefts can often result from organized crime groups or cartels, liquidating fiat assets and extorting exchanges with some extra cash. Regarding the occurrence of theft, the United States was the most vulnerable country on the rank with 24 crypto attacks along with China and U.K in order.

3. Market Manipulation and Fraud

In theory, the blockchain allows all the participants to monitor and view its exchange transactions, unless it is an anonymous account. Due to this aspect, “the ability to detect and deter insider trading, front-running, pump-and-dump schemes, and other forms of market abuse involving unregistered ICOs and unlicensed VCEs is severely limited.” (“Cryptocurrency AML Risk Considerations.” *Cryptocurrency AML Risk Considerations - Allen & Overy*) The ease of creating new accounts, alongside with the absence of regulatory body taking place, allows criminals to take place and make marketplaces even more vulnerable.

4. Facilitating Unlicensed Businesses

Active use of crypto-assets in Business area has raised a concern of jurisdiction in terms of its licensing. Increase in the variety of regulatory requirements added up some challenges mainly about whether the cryptocurrency businesses comply with local laws (“Cryptocurrency AML Risk

Considerations.” *Cryptocurrency AML Risk Considerations - Allen & Overy*) This concern has become one of the actively discussed topics, due to its implication of eliciting proceeds through illegal and unlicensed businesses that take place within the nation.

Elevated AML Risks

In addition to the regulative actions toward crypto-related marketplaces, there is another problem relating to potential money launderers, due to the general nature of cryptocurrency, mainly characterized by anonymity, borderlessness and liquidity.

1. Placement

The availability of rapidly opening of anonymous cryptocurrency accounts allow criminals to consolidate, covert flat assets, and illicit cash more easily with low-risk.

2. Layering

The use of cryptocurrency works as a proper means to withdraw or transit proceeds across borders, from state to state and from nation to nation. Due to its comparatively easy process of converting their crypto-assets to fiat currency, money launderers can easily gain large scale of proceeds and raise capital.

3. Terrorism Financing and Sanctions Evasion

Regarding its aspect of anonymity and the ease of creating accounts, cryptocurrency can often work as the main financing tool for the terrorist groups. Even though the use of crypto- assets is not widespread yet in terrorism funding, terrorist groups have constantly been experimenting its possibility for their financing tool by using Bitcoin since 2014.

4. Status quo on Regulation (Previous actions)

Cryptocurrency system was inaugurated with the Technology Boom in 1990s all over the world. In the virtual network called Blockchain system, every single users has virtual wallet, and they are able to take economic transactions in that invisible network. However, few cryptocurrency systems such as “Flooz”, “Beenz” and “DigiCash” all failed to draw a great deal of users into their virtual network for many reasons. One of them was “Double-spending” related problems, which refers to the fraudulent technique of spending the same virtual cash amount twice by hacking the cash system. Another one was “Money Laundering”. Some users bought the virtual cash by paying it for transferring their offline money to online cash system. Since buying this sort of virtual cash was not a taxable activity, some users used to do so for concealing their traces of money not to pay taxes. Furthermore, through the continual advancement of fin-technology, this method began to spread out among those who want to erase their monetary traces and it now becomes a form of serious crime in many states.

In the past, the only solution for this problematic situation was to utilize “the TTP (Trusted Third Party) approach”, which the central server supervised and kept the general records of the balances and transactions. In other words, the trusted third persons were into the supervisory position to watch all of the transactions conducted in the blockchain system in order to limit the double-spending. Unfortunately, this method was impossible because the trusted third persons ought to know all of private informations of the users such as individual ID numbers, Bank account, even its password and so on. And for this reason, this approach was no longer used in plenty of blockchain programs.

But now, in order to regulate the fluidity of the virtual cash, many countries came to refer cryptocurrency in the legitimate boundary include: digital currency (Argentina, Thailand, and Australia), virtual commodity (Canada, China, Taiwan), crypto-token (Germany), payment token (Switzerland), cyber currency (Italy and Lebanon), electronic currency (Colombia and Lebanon), and virtual asset (Honduras and Mexico).

One of the most common actions in recent society, is to announce government-issued notices about the pitfalls of investing in the cryptocurrency markets and to enforce direct restrictions in the investment of cryptocurrency. Such warnings, mostly issued by central banks, are largely designed to educate the citizenry about the difference between actual currencies, which are issued by the state, and cryptocurrencies, which are not. First of all, on the one hand, many of the warnings issued by various countries note that cryptocurrencies create for illegal activities, such as money laundering and

terrorism. On the other hand, most government warnings note the added risk resulting from the high volatility associated with cryptocurrencies and the fact that many of the organizations that facilitate such transactions are unregulated. Most also clearly point out that they do not have both legally protecting methods for citizens who invest in cryptocurrencies at their own personal risk and legally economic compensation policy by the government in the event of loss.

Some jurisdictions have imposed restrictions on investments in cryptocurrencies, the extent of which varies from one jurisdiction to another. Some countries such as Algeria, Bolivia, Morocco, Nepal, Pakistan, and Vietnam come to a decision to ban all activities involving cryptocurrencies. Qatar and Bahrain have a slightly different approach in that they urge their citizens not to engage in any kind of activities involving cryptocurrencies locally, but allow citizens to do so outside their borders. There are also countries that impose indirect restrictions by barring financial institutions within their borders from facilitating transactions that involve cryptocurrencies (Bangladesh, Iran, Thailand, Lithuania, Lesotho, China, and Colombia) while not prohibiting their citizens from investing in cryptocurrencies.

One of the questions that arise from allowing investments in and the use of cryptocurrencies is the issue of taxation. In this regard, the challenge appears to be deciding on how to categorize the matter of taxation on cryptocurrency and its related activities. This concept is critical in terms of deciding each applicable taxation bracket based on whether the gains are from crypto-related financial activities or not. The surveyed countries have categorized cryptocurrencies differently for tax purposes, as illustrated by the following examples:

Israel → taxed as asset

Bulgaria → taxed as financial asset

Switzerland → taxed as foreign currency

Argentina &
Spain → subject to income tax

Denmark → subject to income tax and losses are deductible

United Kingdom: → corporations pay corporate tax, unincorporated businesses pay income tax, individuals pay capital gains tax

5. Possible Actions & Solutions

1. Intervention of Intergovernmental Organization

The G20 nations agreed upon the need of a newly established intergovernmental organization specialized for cryptocurrency regulation or the expansion of authority of current-existing organizations such as the IMF (International Monetary Fund) to effectively prevent and track the illicit flow of crypto-assets such as money laundering. This solution can be a great step forward to the goal of preventing of illegal flow of money because such actions take place in black markets worldwide. The main reason why black markets preferred cryptocurrencies for means of exchanging is because it can be easily sent to any places around the globe outside authority control. However, with the existence of an intergovernmental organization that specializes in tracking such flow of assets, it would be possible for multiple countries to cooperate with one another to track the flow of dark money, ultimately contributing to the creation of a global network for anti-money laundering prevention.

2. Constant Investment on Cryptocurrency Experts

Although it already has been nearly 10 years since the world's first cryptocurrency market emerged, the technology that operates such cryptocurrencies such as Blockchain technology is relatively a new field of technology. There are still few related experts that have a deep understanding of the underlying technology that operates cryptocurrencies, which is one main reason why authorities fail to come up with effective regulating methods of cryptocurrency exchange and sometimes make things worse by not considering the key mechanisms of cryptocurrency itself. However, if there are a number of related experts that can provide advices or suggestions, policy makers will be able to come up with practical solutions that can fulfill the need for regulation for authorities while not interfering with the cryptocurrency market unnecessarily.

3. Reinforced Laws for New Currencies Entering the Market

Ever since the world's first cryptocurrency "Bitcoin" was introduced, other cryptocurrencies, also known as "Altcoins" followed into the market with their own appeal and strategies. Although companies entering to a new market are natural, just like any other markets, should comply with

authority regulations that are intended to protect customers. Currently, there are some countries that declared the mining and the exchange of cryptocurrencies illegal, such as China, considering the exchange of such currencies an offense towards local monetary laws. In addition, there is an ongoing debate regarding the central body of cryptocurrency regulation; mainly between the choice of putting international regulation more focus or respecting each nation's domestic legislation regarding cryptocurrency control. Also, there is a problem of liability of such currencies. There has been an increasing report of authorities fail to protect customers that exchange cryptocurrency because banks disallow or close their customers' bank account for cryptocurrency exchange for the reason that they might get all the blame when the cryptocurrency market crashes. However, if the authorities put enough restrictions, the overall credibility and stability of the cryptocurrency market will increase, further making it more functional as a new means of currency.

6. Definition on Keywords, Affiliated Organizations and Documents

1) Definition on Keywords

Cryptocurrency: a digital or virtual currency designed to work as a medium of monetary exchange.

Cryptography: a complex form of digital puzzle; a mechanism to secure and verify the virtual transactions as well as to control the creation of new units of a particular cryptocurrency.

Crypto-assets: a digital asset in cryptocurrency system which can be only acquired via cryptography.

Trusted Third Party: an entity which facilitates interactions(transactions) between senders and recipients who both trust the third party.

Blockchain: a public ledger of all transaction that ever happened within the virtual network.

Miners: a person who can only confirm the transaction in the cryptocurrency system by solving specific cryptographic puzzles and gain some rewards and transaction financial fees.

P2P(Peer to peer) electronic cash system: an electronic system which allows online payments to be sent directly from one party to another without going through a financial institution.

Double-spending: fraudulent technique of spending the same amount twice.

Decentralized cash system: an electronic cash system with no servers involved and central controlling authority simultaneously.

Money Laundering: the act of concealing the transformation of economic profits from illegal activities and corruption into ostensibly legitimate assets.

Anti - Money Laundering: the movement that suppresses any money laundering actions utilizing the blockchain system

Ledger: a record in which a company or organization writes down the amounts of money it spends and receives.

Proof of Work: one of the mining methods which ensures the value of the monetary and its security by requiring miners do the mining works(solving a form of cryptographical mathematical puzzles so as to prove that the mined money is not fraudulent)

Identity Theft: the illegal use of someone else's personal information especially for the individual's profits

Fraud: intentional perversion of truth usually in legitimate forms

2) Affiliated organizations and documents

FATF(Financial Action Task Force on Money Laundering)

It is an intergovernmental body established in 1989 by the Ministers of its member jurisdictions. The FATF puts its goal on setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. It can be seen that this is the main body carrying out the research about the anti-money laundering crimes.

- [FATF International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation](#)
- [FATF Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems, February 2013](#)
- [Thailand's progress in strengthening measures to tackle **money laundering** and terrorist financing](#)
- [Sri Lanka's progress in strengthening measures to tackle **money laundering** and terrorist financing](#)
- [Belgium's progress in strengthening measures to tackle **money laundering** and terrorist financing](#)

IMF(International Monetary Fund)

It is an organization of 189 countries all over the world, working to cooperate with global monetary system and stabilize the international financial system. Not just limited to this, it struggles to promote sustainable economic growth. Because the anti-money laundering utilizing the crypto-currency system draws confusion to the global financial system based on its technological vulnerabilities, IMF is now on the process of research to solve this worldwide financial problem.

- **Anti-Money Laundering/Combating the Financing of Terrorism ([AML/CFT](#)).**
- **[The IMF and the Fight against Money Laundering and the Financing Of Terrorism](#)**
- **[Review of 1997 Guidance Note on Governance - A Proposed Framework for Enhanced Fund Engagement](#)**

FSB(Financial Stability Board)

The FSB monitors and analyses vulnerabilities affecting the global financial system and proposes actions needed to address them. In addition, it monitors and advises on market and systemic developments and their implications for regulatory policy. Since the 21 century does not come to the level yet, which can fully ensure the validity of the use of crypto-currency system, the FSB is on the process of monitoring this new-came mechanism.

- **Prevention of criminal use of the banking system for the purpose of money-laundering**
- **Guidance on correspondent banking services**
- **[FSB RCG for Asia discusses cross-border resolution, effects of the ...](#)**
- **[Standard-Setting Bodies in the Compendium - Financial Stability ...](#)**

OECD(Organization for Economic Cooperation and Development)

It is the organization enhancing the international economic cooperation for sustainable development. The OECD Secretariat collects and analyses data, after which committees discuss policy regarding this information, the council makes decisions that will influence on the global society. In the economic field, OECD is the only influential institution in the sense of that outputs of its discussion can be realized in real society.

- **[Improving Co-operation Between Tax and Anti-Money Laundering ...](#)**
- **[Indonesia: Law on Money Laundering \(Law No. 15 of 2002, as ...](#)**
- **[report on identity fraud: tax evasion and money laundering](#)**
- **[Financial Action Task Force on Money Laundering 2000-2001 ...](#)**

7. Critical Questions

1. Who (individuals, groups, societies) are the most subjective to be controlled by both domestic and international level of regulation?
2. What problems emerge from issues related to cryptocurrency and its lack of regulation?
3. How can international bodies (such as the UN or G20) act in resolving problems that have arose from the use of cryptocurrency?
4. What efforts have been made as solutions, and have they been effective?
5. What other solutions can be suggested in order to effectively regulate the flow of cryptocurrency and keep the balance between the crypto and non-crypto assets?

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