Samuel Kim

Russian Federation

Economic and Financial Affairs Council (ECOFIN)

**Topic A:** Cryptocurrencies

1. **Introduction**.

The development of cryptocurrencies have created massive changes to the world’s economy. Unlike modern banking systems, cryptocurrencies function similarly to physical money, thus such mediums of exchange are difficult to regulate (He et. al, 5). Despite being in its infant stages, cryptocurrencies have proven to benefit society in many different ways. Particularly, the validation system in cryptocurrencies (using blockchain technology) will help nations and banks keep accurate records and help detect fraud more easily (He et. al, 6-7). However, the decentralized nature of such currencies can have detrimental effects on both modern financial institutions and civil society. The decentralized nature of cryptocurrencies allows terrorist organizations and international criminal cartels to use them in illicit transactions. For example, the Islamic State has been able to receive funds on the “dark web” via Bitcoin. Even conventional methods of fundraising, such as individual investment and front charities, can be facilitated by cryptocurrencies (McCoy). Also, cryptocurrencies decrease the public’s reliance on traditional financial institutions. Rather than using traditional banks, more and more individuals are turning to money-transfer services, which only provide basic financial services and payment programs (Martin).

In an effort to accomodate for the emergence of cryptocurrencies, the international community and the United Nations has taken action. In one sense, the United Nations has embraced the role of cryptocurrencies, using Ethereum in their World Food Programme (“Blockchain Crypto Assistance at WFP”). On the other hand, the United Nations has taken precautionary measures to monitor illicit transactions made with cryptocurrencies. The UN Office on Drugs and Crime has created a Cryptocurrency Investigation Training (CIT) program to assist law enforcement capabilities in monitoring such transactions and criminal activities (UNODC). Despite the great strides the United Nations has taken, it is necessary to take further measures to ensure that cryptocurrencies can be used legally and safely.

1. **Russian Federation’s Stance**

The Russian Federation believes that a careful, but successful integration of cryptocurrencies into the global economy is essential. The Russian Federation believes that this currently decentralized currency should be subject to regulation and scrutiny. At the same time, the Russian Federation recognizes the importance of cryptocurrency usage in the global market, economic development, and international commerce.

Currently, according to the Federal Tax Service, cryptocurrency use is not subject to Russian law, and is thereby legal, and the Central Bank has also made clear its support of this position (Federal Tax Service of the Russian Federation). Furthermore, the current government has expressed the necessity of integrating cryptocurrencies into the domestic economy and to engage in international commercial activities “sensitive to the state” (“Meeting on legislative regulation of cryptocurrencies”). However, despite the necessity for integration, the Russian Federation believes that regulations must be put into place to safeguard individuals from both the economic instability and the security threats posed by cryptocurrencies. The current government has repeatedly issued statements regarding the risks entailed in cryptocurrency investment, including the issuing of initial coin offerings (ICOs) and rapid fluctuation (Central Bank of the Russian Federation).

Adhering to the advice of its agencies, the current government is seeking to create both international cooperation and domestic regulation to ensure the stable and safe introduction of cryptocurrencies into the domestic economy. In December 2017, the Finance Ministry and Central Bank both commenced drafting legislation to provide an official legal framework for cryptocurrency use (Ostroukh). In addition, these laws will seek to protect citizens and businesses from both illegal activities and economic fluctuation, by regulating ownership, investment, and transactions of cryptocurrencies to promote legally and economically “responsible” use (“Meeting on legislative regulation of cryptocurrencies”) (“Meeting on using digital technology in finance”). Such regulations are not intended to be crippling, rather they are intended to foster Russian economic growth and assist Russian businesses in international commerce. The Russian Federation also recognizes the need for international cooperation in creating regulatory frameworks for cryptocurrencies. The Russian Federation understands the actions of its neighbor, the People's Republic of China (PRC), which has banned the use of ICOs, in order to safeguard the Chinese yuan. In creating its own legal framework, the Russian Federation will pursue similar action and, similarly to the PRC, create the groundwork to establish a national, regulated cryptocurrency (Afonso et. al, 1-2).

1. **Russian Federation’s Proposal**

To ensure the legal and stable introduction of cryptocurrencies to the formal economy, the Russian Federation would like to emphasize the need for sensible economic regulations, practical legal precautions, and preparation for economic implications of cryptocurrencies.

In order to ensure the stability of the international financial market, the Russian Federation believes that regulatory frameworks must be created to address the development and exchange of cryptocurrencies. Such regulations must create an international definition for the various aspects of cryptocurrencies, address marketplace practices (i.e. ICOs, etc.), and successfully integrate cryptocurrencies into traditional financial systems (Central Bank of the Russian Federation). Furthermore, such regulations should not make regulated cryptocurrency use difficult for governments and businesses. International organizations and financial forums, such as the World Bank and the International Monetary Fund (IMF), must work together to address these various concerns and establish said frameworks (He et. al, 35-37).

In order to ensure that cryptocurrencies do not facilitate illicit and illegal activities, the Russian Federation believes that the international community must work together to re-frame intelligence and investigatory techniques, so that cryptocurrencies cannot be used with anonymity by international terrorist organizations or criminals. The Russian Federation encourages the continuation of the UNODC  “CIT” program and suggests that international investigatory cooperation with regards to cryptocurrencies be encouraged by the UNODC (“Meeting on using digital technology in finance”).

The Russian Federation also believes that the international community must be prepared for the economic implications of rapid price fluctuations. In addition to creating the aforementioned regulatory framework, the International Monetary Fund and the World Bank must create an analysis and bailout plan for individual nations in case of an impending downturn in the market (He et. al, 37). Furthermore, the IMF should work with the central banks of various nations to create material for investors, primarily warning them of the risk of cryptocurrencies.

Through this plan, the Russian Federation hopes that cryptocurrencies will be successfully integrated into the world economy, with much prosperity to come.

**Works Cited: Topic A**

Alfonso, Helena, et al. “Cryptocurrency | Development Policy & Analysis Division.” *United Nations*, United Nations, 13 Nov. 2017, www.un.org/development/desa/dpad/tag/cryptocurrency/.

“Blockchain 'Crypto' Assistance at WFP.” *WFP Innovation*, United Nations World Food Programme, 25 Jan. 2017, innovation.wfp.org/blog/blockchain-crypto-assistance-wfp.

Central Bank of the Russian Federation. “On the Use of Private ‘Virtual Currencies’ (Crypto Currency).” *Central Bank of the Russian Federation*, 4 Sept. 2017, www.cbr.ru/press/PR/?file=04092017\_183512if2017-09-04T18\_31\_05.htm.

Federal Tax Service of the Russian Federation. “Question: On Controlling the Circulation of Crypto-Currencies (Virtual Currencies). (Letter of the Federal Tax Service of Russia of 03.10.2016 N OA-18-17 / 1027).” *Consultant Plus*, 3 Oct. 2016, www.consultant.ru/cons/cgi/online.cgi?req=doc;base=QUEST;n=162766#0.

He, Dong, et al. “Virtual Currencies and Beyond: Initial Considerations.” *Staff Discussion Notes*, vol. 16, no. 03, 2016, p. 1., doi:10.5089/9781498363273.006.

Martin, Sarah. “Banking with Bitcoin.” *Council on Foreign Relations*, Council on Foreign Relations, 5 Aug. 2014, www.cfr.org/blog/banking-bitcoin.

McCoy, Olivia. “Bitcoin for Bombs.” *Council on Foreign Relations*, Council on Foreign Relations, 17 Aug. 2017, www.cfr.org/blog/bitcoin-bombs.

“Meeting on Legislative Regulation of Cryptocurrencies.” *President of Russia*, Presidential Office of the Russian Federation, 12 Dec. 2017, en.kremlin.ru/events/administration/56377.

“Meeting on Using Digital Technology in Finance.” *President of Russia*, Presidential Office of the Russian Federation, 10 Oct. 2017, en.kremlin.ru/events/president/news/55813.

Ostroukh;, Andrey. “Russia's Aksakov: Law on Cryptocurrencies to Limit Investments in ICOs.” *Reuters*, Thomson Reuters, 21 Dec. 2017, www.reuters.com/article/us-russia-bitcoin-law-draft/russias-aksakov-law-on-cryptocurrencies-to-limit-investments-in-icos-ria-idUSKBN1EF0WE.

UNODC. “United Nations Office on Drugs and Crime.” *Thailand Strengthens Capacity to Trace and Investigate Cryptocurrencies*, 31 July 2017, [www.unodc.org/southeastasiaandpacific/en/2017/07/cryptocurrencies/story.html](http://www.unodc.org/southeastasiaandpacific/en/2017/07/cryptocurrencies/story.html).