The Economic and Social Council (ECOSOC) Study Guide

Istanbul University Model United Nations

Contents

Letter from the Under-Secretary-General

Esteemed Participants of the ECOSOC Committee,

As the Under-Secretary-General of The Economic & Social Council, I welcome you all to the Istanbul University Model United Nations Conference 2022. My name is Melike Or, I am a double major student in International Relations and Political Sciences alongside English Literature, it is my utmost pleasure to entertain you during my university's first MUN conference after a fairly long break.

The committee I have been assigned by the Secretariat is not only essential in grasping the way our economy is shifting into a completely new orbit but also one that raises serious questions regarding the space we leave for human rights in capitalism's never-ending race for profit. The topics covered by the agenda items of this respective committee will surely become issues to be addressed by economists and politicians in the future; however, the more these issues will be dismissed the bigger they will become.

I would like to encourage all participating delegates to keep in mind the reality of the issues to be discussed in the committee and try to look for realistic yet innovative answers to the questions occurring during debates. Lastly, I would like to remind all delegates that the topics to be addressed during the conference are fairly new and the trajectory of the future economy and politics has never looked more imprecise, therefore they are all encouraged to think outside the box when tackling the problems presented by the committee and forging the resolution paper.

Lastly, I would like to thank our esteemed Secretary-General Gamze Balı and our Under-Secretary-General Mehmet Arda Yıldız for assigning me this position and for their academic guidance. I am honored to have been given the opportunity to contribute to this conference academically and be part of the esteemed group of students to revive the MUN tradition of Istanbul University.

I am looking forward to seeing all of you debate and find possible solutions that might contribute to the way we all comprehend economical and political situations. If any of you have any questions, please don't hesitate to contact me through my email at melikeor@gmail.com.

Sincerely yours,

Melike Or

Letter from the Academic Assistant

Highly distinguished Participants,

It is my utmost pleasure to welcome you all to this annual session of Istanbul University Model United Nations 2022.

My name is Hana Llapashtica, and I am currently enrolled as an undergraduate double-major student in Marmara University. I've been participating in Model United Nations conferences at various positions since 2016. It is my honor to serve you as your academic assistant responsible for Economic and Social council.

This year, we will be focusing on agenda items which are carrying tremendous importance in the means of the future of global economy. This most crucial problematics being the question of cryptocurrencies in the international arena and the possibility of regulations Surrounding it.

Cryptocurrency, sometimes called crypto-currency or crypto, is any form of currency that exists digitally or virtually and uses cryptography to secure transactions. Cryptocurrencies don't have a central issuing or regulating authority, instead using a decentralized system to record transactions and issue new units. This brings up concerns such as cryptocurrencies being used in illegal transactions and money laundering, thus, leading us to the question of supervision of the cryptocurrencies.

IUMUN'22 will be a rewarding experience for all participants to broaden their horizons, creating alternative futures and possibilities for today's world and will find new and intriguing solutions to many crucial world problems. We wholeheartedly hope that every single participant will enrich their experiences in this conference which will last 4 days in numbers but eternal in terms of value and memories.

May the everlasting spirit and inspiration be with you!

Warm Regards,

Hana Llapashtica

First Agenda Item: Establishment of the Universal Minimum Wage as a Humanitarian Right

A) Introduction

The usage of minimum wage across the globe has become a widespread practice nowadays to ensure a stable income for workers, stabilize the labor market and fixate the costs needed for various industries. To put it briefly, the general aim of having a minimum wage system is to ensure that workers are not paid below their marginal productivity.

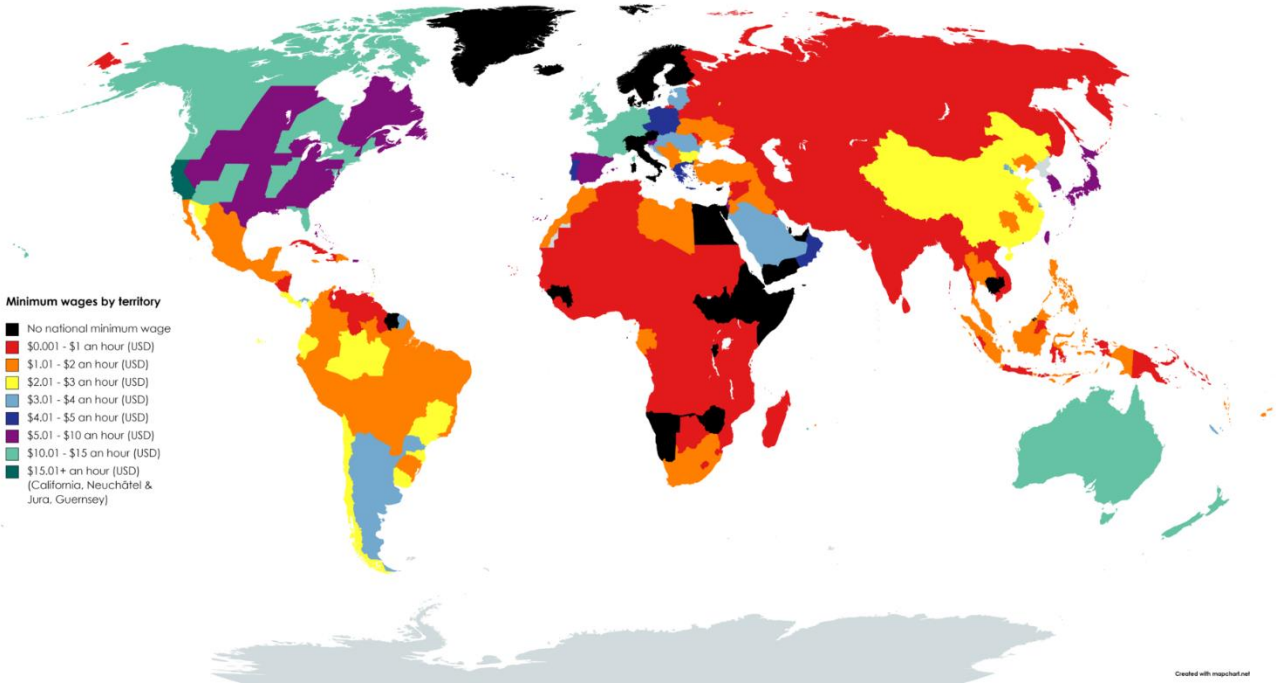
The first country to introduce a law fixing the legal base amount of the salary of its workers was New Zealand, by adopting the Industrial Conciliation and Arbitration Act in 1894. Shortly after Australia followed with the Victorian Factories and Shops Act in 1896, thus introducing its own minimum wage rates. However, the minimum wage adopted under the Victorian Factories and Shops Act cannot be interpreted as a universal minimum wage but it set minimum wages for various industries. New Zealand and Australia have both had similar reasons in setting a minimum wage. Primarily it was not due to an economic political campaign aiming at something but mainly because of campaigns and strikes against the poor working conditions all across the country conducted by the working class. South Africa is one of the last countries who introduced the National Minimum Wage Bill in 2017, however it is yet to be enforced.

Franklin D. Roosevelt was the first president in the United States to introduce a statutory, federal minimum wage in the year 1938. Roosevelt set the minimum wage in America at 25 cents per hour to help low income workers during the Great Depression, however the federal minimum wage in America is not tied to inflation therefore it hasn't always been able to keep up with the rising market prices, thus over the course of years it has lost its value or stagnated momentarily.

Members of the European Union started to introduce minimum wages in the second half of the 20th century. In 2022, 21 out of 27 member states of the European Union have a statutory minimum wage, while the other six others have wage levels determined through collective bargaining. Expressed in euros, monthly minimum wages vary widely across the EU ranging from the lowest being €312 in Bulgaria to the highest being €2.142 in Luxembourg. However, it should be noted that the disparities are certainly significantly smaller when the differences in price levels are eliminated. For example, when expressed in purchasing power standard, the minimum wage ranges from PPS 547 in Latvia to PPS 1 634 in Luxembourg. Of all the European Union member states that have legally introduced a statutory minimum wage Germany was the last one in 2015.

In European politics, the question of setting a minimum wage is still one of the most analyzed and debated topics in economics. In the past years, especially after the Covid-19 outbreak which completely changed the way the European Union views social and economic issues, the idea of creating a standardized European minimum wage has entered the focus of debates. Looking at the difference in purchasing power among European Union members, it may be taken in

consideration as a possible instrument to ensure fair wages across the union and help the member countries with less purchasing power be more included both socially and economically.



B) The Debate Surrounding the Necessity of a Minimum Wage

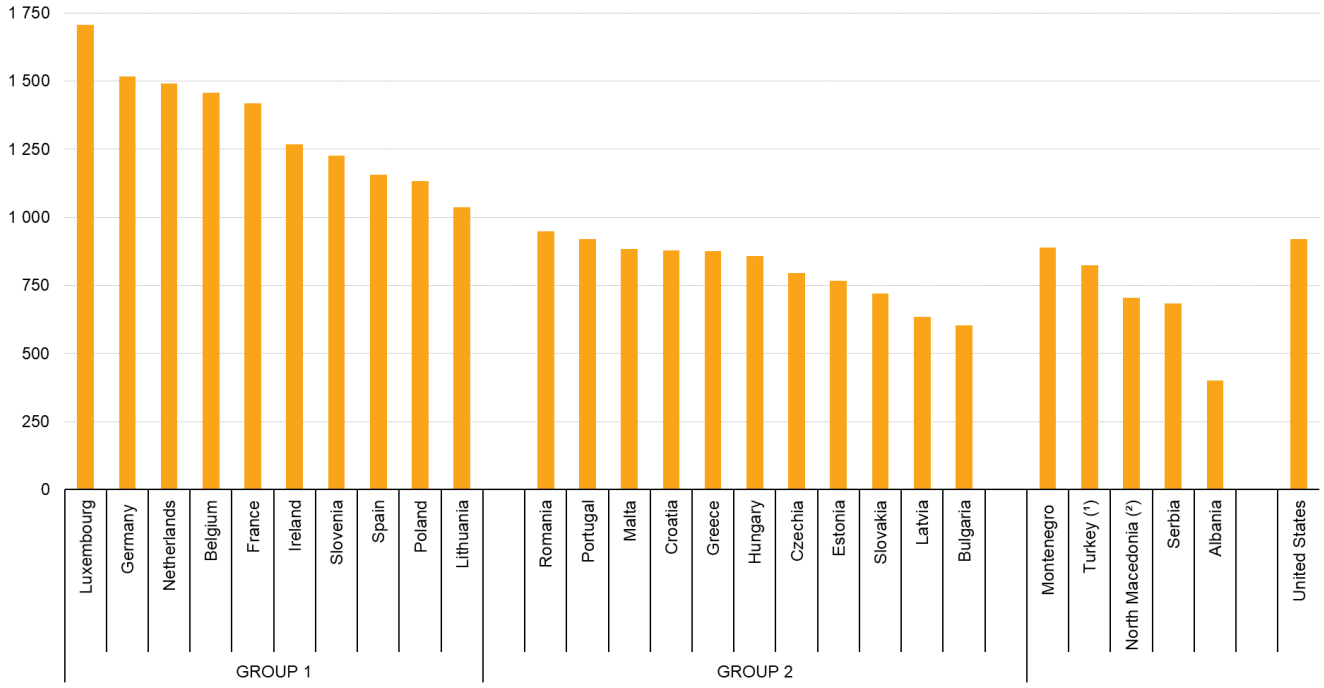
The necessity to have a minimum wage is still a topic put to question by many governments who have refused to implement it in their economic systems. There are some countries which have refused to hop on the minimum wage trend due to their already existing strong social security and trade unions which make the minimum wage seem to be an obsolete solution to combating poverty and securing workers' rights. Unionization itself strengthens the workers' bargaining power, thus giving workers' other options than to accept a low paid job. When workers are encouraged to form unions and collectively exercise bargaining leverage to put them on an arguably ''even field'' with their employers they are going to be much less dependent on having an institutionalized minimum wage level. Some of the countries who do not have a statutory minimum wage and are known to be encouraging unionization are; Denmark, Sweden, Norway, Iceland and Finland. Of course there are other notable First World European countries who widely encourage unionization but still choose to maintain a statutory minimum wage even though there is no need for them to enforce it. Today roughly 90 percent of countries have a minimum wage.

Although there is a vast majority of people viewing the minimum wage as an essential aspect of protecting the rights of workers there are many economists who beg to differ. Their main concern is that by paying laborers an arguably high wage the demand of labor requested by industries will decrease as a way to cut down on cost and ensure profit. This phenomenon would therefore result in an unemployment crisis which would ultimately further destabilize the economical balance between supply and demand. Shortly, this whole debate is centered on the most basic concept in economy, when something is expensive people will buy less of it, in this instance if labor is expensive then employers will want less of it which might ultimately result in an unemployment crisis. ''... if minimum wages exceed the productivity of the least productive workers, firms may not employ these workers. Hence, a minimum wage that is set

on a relatively high level, can decrease the feasibility of employing workers who are not productive. This, in turn, leads to a reduction in the employment of these workers, and potentially to a decrease in competitiveness of the producers in the respective geographical area'' (Neumark and Wascher 2006).

For the minimum wage system to work and keep up with the economy of its respective country it needs to be constantly adjusted according to inflation rates otherwise the devaluation of the minimum wage will be inevitable, resulting in an economic catastrophe. It should be kept in mind that there are countries whose majority of people are minimum wage workers or who earn close to the minimum wage, therefore it is essential for them to get paid enough to be able to contribute to the economy. Theoretically, if a country were to have a majority of minimum wage workers who do not have the wealth to purchase leisurely, the respective country's economy would crash due to the lack of demand for supply.

Minimum wages, January 2022
(PPS per month)



(1) PPS based on the MW level of July 2020
(2) PPS based on the MW level of July 2021
Note: Estimates. Denmark, Italy, Cyprus, Austria, Finland and Sweden: no national minimum wage.
Source: Eurostat (online data code: earn_mw_cur)

eurostat

C) The Benefits of Having a Minimum Wage

Many economists beg to differ on the idea that the minimum wage or the increase of the minimum wage could potentially hurt jobs. In 1993, Alan Krueger from Berkeley University published a study with the help of the National Bureau of Economic Research alongside his colleague Card. They aimed to evaluate the effects of the increase in the minimum wage in the state of New Jersey, from 4.25 US dollars to 5.05 per hour and how its correlation with the amount of unemployment. Card and Krueger analyzed more than 400 fast-food restaurants in New Jersey and eastern Pennsylvania to see if employment growth was slower in New Jersey following the minimum wage increase. They found no evidence that it was. "Despite the

increase in wages, full-time-equivalent employment increased in New Jersey relative to Pennsylvania," they concluded. That increase wasn't statistically significant, but they certainly found no reason to think that the minimum wage was hurting job growth in New Jersey relative to Pennsylvania.

Many other studies following Card and Krueger's have also concluded that increasing the minimum wage or simply setting the minimum wage to a satisfying standard would only encourage passive unemployed people to take on jobs. Ultimately, more people taking on jobs also results in a fiscal benefit for the governments who will be able to collect more tax revenue from the newly employed which can again be redistributed to create more job spaces and combat poverty and unemployment. Studies have also shown that an increase in the wage boosts the morale of the workers which in return results in more productivity in the workforce. Firms who voluntarily choose to grant their workers higher wages are also more likely to boost human capital and have more productive and skilled workers who in return will choose to remain in the respective firm due to the high wage they are being paid. Therefore, firms will have more incentive to invest in labor productivity.

Having a fixed minimum wage may also offset the impact of monopsony employment which can be briefly explained as a labor market structure in which there is a single powerful buyer of a particular type of labor. A monopsony employer would therefore create a hegemony of labor power by getting hold of all the workers who are skilled in a specific area. However, if a minimum wage and a certain standard for payment is installed in that area the workers will not all want to work for one specific employer only, ensuring fair pay for everyone possessing the required skill set.

Ultimately having a statutory minimum wage would also increase the income of the laborers who are considered to be low-paid. The biggest perk of having a government regulated fixed minimum wage is that no worker shall be underpaid or overworked under the law of the specific country, thus ensuring higher living standards and respect for the worker's rights.

D) The Impact of the Pandemic On the Wealth Distribution Globally

With the pandemic an increase in the number of people living in poverty has brought to light how susceptible our fragile economic system is to tip in the favor of a privileged minority. Roughly 97 million more people are living on less than 1,90 dollars a day, which is considered as the limit to determine extreme poverty, increasing the global poverty rate from the previous 7.8 percent to 9.1 percent. Additionally, 163 million more people are living on less than 5.50 dollars a day, making the pandemic one of the biggest economic catastrophes of all time. It is estimated that globally, three to four years of progress towards ending world poverty have been lost as a result. To further emphasize the problem, it should also be noted that the wealth of the world's ten richest men has more than doubled during the pandemic, from 700 billion dollars to 1.5 trillion dollars in an unprecedented ''economic boom''.

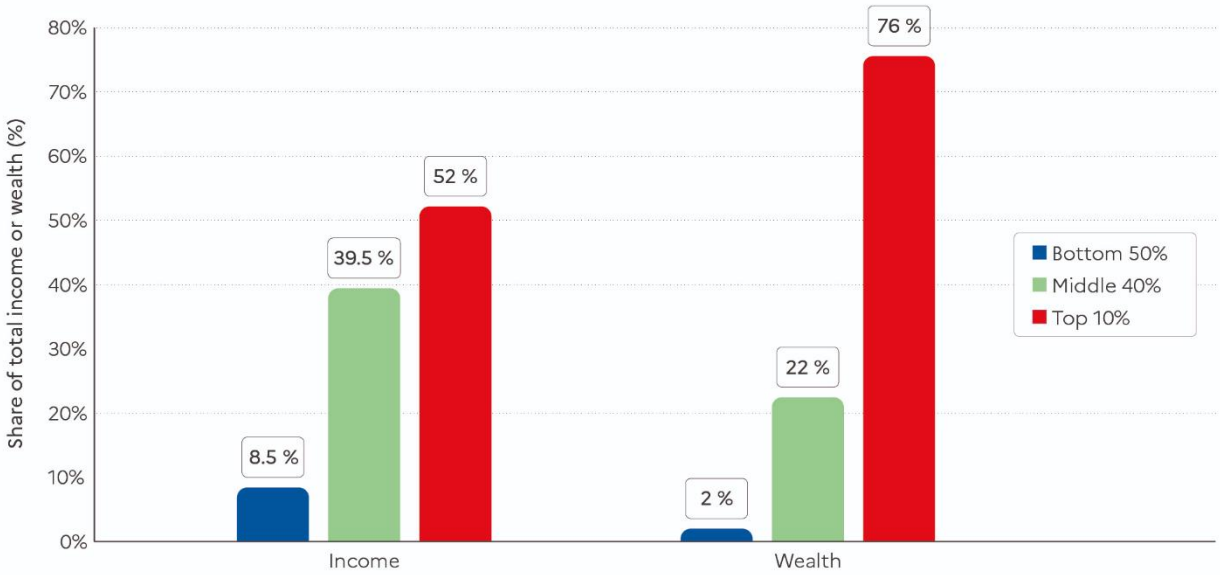
This phenomenon of a very exclusive billionaire elite surfacing victorious after the pandemic has sparked inquiries about the ethical stance of this issue. While it is not expected for everyone to achieve the same amount of wealth, this topic has transgressed into the global political-economic arena as the simple and justified questions surrounding the fairness of the situation. Looking at the statistics of the issue it is undeniable that most governments have failed in ensuring a stable income for their working class citizens and have favored the business owners

who have applied cuts in the wages of their workers to cope with the economic crisis stemming from the pandemic.

The unprecedented global economic and labor market crisis triggered by the COVID-19 pandemic has definitely harmed vulnerable groups and put many families at risk of falling into poverty. Ultimately, the peril of increased poverty and inequality is more than ever a concern for social rectitude. It is, therefore, paramount to amplify measures aimed at protecting workers at risk and to design policies that avert poverty and inequality levels from ascending further. In this respect, satisfactory minimum wage systems could function as a particularly valuable tool. The primary intent of a minimum wage is to safeguard workers against unduly low pay. However, many countries have identified the supplementary prospect of a minimum wage to promote parity by increasing workers' remuneration and enhancing the living conditions of those at the lower end of the wage distribution.

Past experience can present useful insights into the prospect of minimum wages as a guideline option to overpower some of the negative consequences of the present crisis. In June 2009, after the global economic crisis, the Global Jobs Pact adopted by the ILO drafted a series of measures to mitigate the effect of that crisis on society and employment. It ultimately suggested that "governments should consider options such as minimum wages that can reduce poverty and inequity, increase demand and contribute to economic stability" (ILO 2009, 11) and requested for the periodic adjustment of minimum wages to deter deflationary wage tendencies. The Global Jobs Pact also proclaimed the applicability of the international labor standards on wages "to prevent a downward spiral in labor conditions and build the recovery" (ILO 2009, 7), making direct reference to the Minimum Wage Fixing Convention, 1970 (No. 131). The ILO Centenary Declaration for the Future of Work has also emphasized the importance of supporting labor market institutions and protecting workers through the implementation of "an adequate minimum wage, statutory or negotiated" (ILO 2019, 5).

Figure 1 ***Global income and wealth inequality, 2021***



Interpretation: *The global bottom 50% captures 8.5% of total income measured at Purchasing Power Parity (PPP). The global bottom 50% owns 2% of wealth (at Purchasing Power Parity). The global top 10% owns 76% of total Household wealth and captures 52% of total income in 2021. Note that top wealth holders are not necessarily top income holders. Incomes are measured after the operation of pension and unemployment systems and before taxes and transfers.* ***Sources and series:*** *wir2022.wid.world/methodology.*

Keeping in mind the economic difficulties experienced collectively by people all around the world it would have been expected that most governments would intervene in adjusting the minimum wages accordingly to the rising levels of inflation. However, from the start of 2020, when the pandemic first hit, some governments have notably abstained from addressing this issue or have done minimal adjustments which ended up looking like throwing a glass of water on a wildfire.

E) Questions a Resolution Should Cover

1. Does the minimum wage have the possibility of hurting workers?

2. Should a standard for minimum wages be created? If yes, what should be the lowest and the highest minimum wage?

3. Is it possible for the European Union to implement a minimum wage all around the union or set a requirement for governments to set the minimum wage in order to fit a certain PPS per month?

4. In which instances is it better to have a minimum wage and which countries should consider adopting such a policy?

5. Should having a fair minimum wage be considered a human right and should there be sanctions for the employers who do not satisfy this standard?

Second Agenda Item: Effects of Cryptocurrencies in the International Arena and the Possibility of Regulations Surrounding It

A) Introduction to Cryptocurrency and Key Terms

Cryptocurrencies are digital assets which are used to transact money or investment purposes. Cryptocurrencies are generated by computer science related professionals; there should be a mathematical method to solve crypto code in order to own a crypto-code that is acceptable by the crypto currency's primitive fundamentals. This crypto-code is standardized by the establisher of that cryptocurrency. Establisher generates a market for this short of "token" before establishing it to markets. There are buyers, sellers and owners of this cryptocurrency and market, demand and supply, determines the value of that crypto-coin.

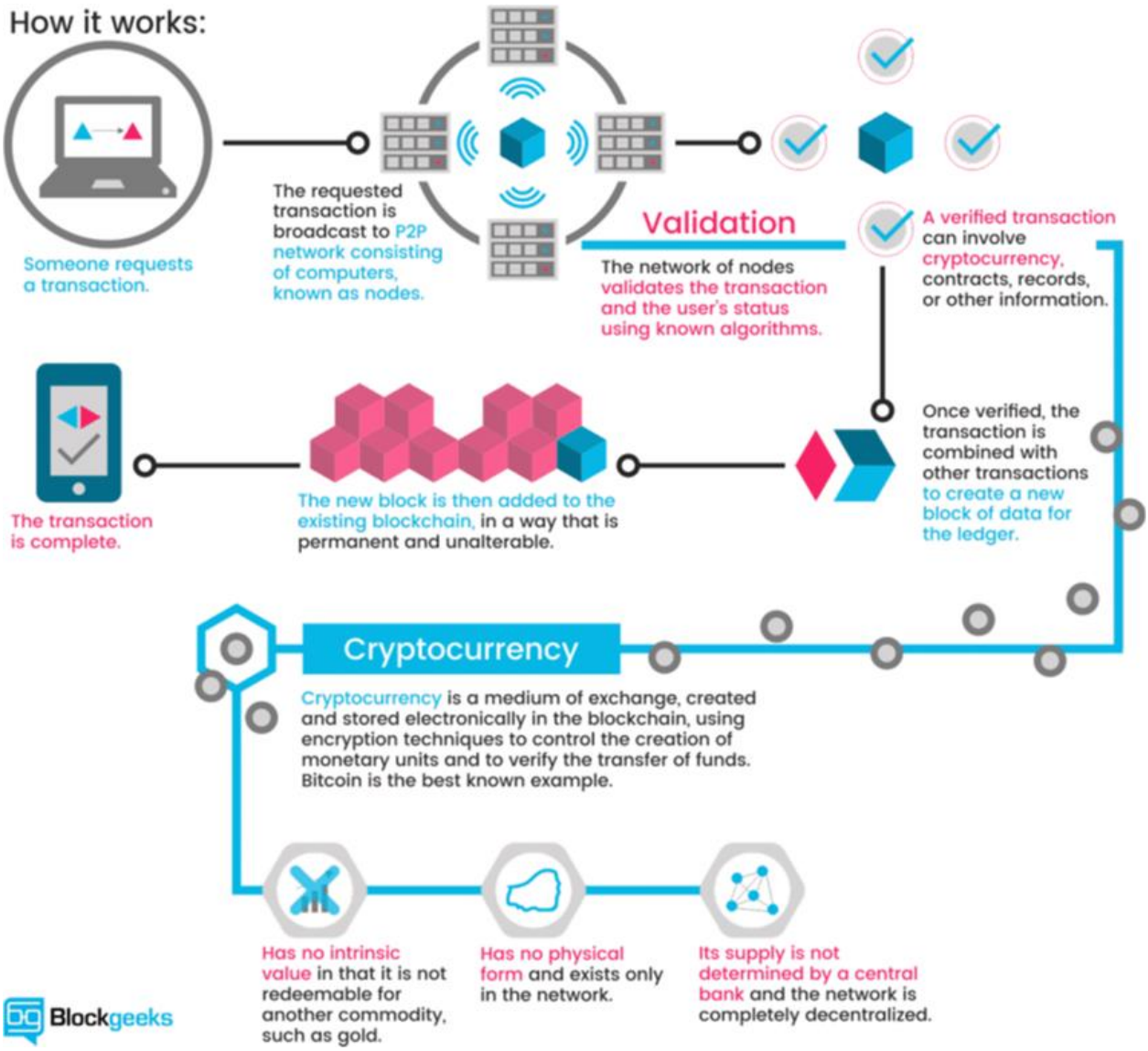
Cryptocurrency can be imagined as a company's stock. There are several actors involved, such as buyers, sellers, and stockholders. It is open on the market and the market determines the value of that stock. Instead of yearly profit-distribution, corporate taxes to governments, employees and employers; this stock is an untraceable money transaction tool which is

generated by cryptocurrency miners. Famous investor Warren Buffet claims “In terms of cryptocurrencies, I can say with certainty that they will come to a bad ending”. Bitcoin’s, the most famous cryptocurrency, on 19th of December 2017 had a value of $19,140.70 per unit, since that peak time bitcoin dropped to $9,295 levels today, on 30th of April 2018. Most of the bitcoin mining, storing and trading businesses have made a great loss and some of them bankrupted. Some individual investors and private cryptocurrency funds lost assets with the Bitcoin-bubble's burst. South Korean news reported that some young Korean adults lost their great amount of total wealth because of this Bitcoin-bubble burst. Such a bubble caused by mass media and the appearance of an unregulated market. This Cryptocurrency market will continue to remain since there is a life changing Blockchain technology that uses cryptocurrencies to remain. What the cryptocurrency market needs is an organization that will regulate the cryptocurrency miners and traders on the market. Transparency must be the key element of this organization and the operations on the cryptocurrency market. There are new cryptocurrencies that are on the rise such as Ripple, Dogecoin, and IOTA.

i. Blockchain Technology

A blockchain, is a continuously growing list of records, called blocks, which are linked and secured using cryptography. Each block typically contains a cryptographic hash of the previous block, a timestamp and transaction data. By design, a blockchain is inherently resistant to modification of the data. It is "an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way". For use as a distributed ledger, a blockchain is typically managed by a peer-to-peer network collectively adhering to a protocol for inter-node communication and validating new blocks. Once recorded, the data in any given block cannot be altered retroactively without the alteration of all subsequent blocks, which requires collusion of the network majority. Blockchains are secure by design and exemplify a distributed computing system with high Byzantine fault tolerance. Decentralized consensus has therefore been achieved with a blockchain. This makes blockchains potentially suitable for the

recording of events, medical records, and other records management activities, such as identity management, transaction processing, documenting provenance, food traceability or voting.



B) Introduction to The Problematic: A Legal Scope

i. Background

With the growing popularity of the crypto market, the large number of unregulated cryptocurrencies (several hundreds), greater attention is now being paid by governments and other stakeholders around the world. Illustrative is that the total market capitalization of the 100 largest cryptocurrencies is reported to exceed the equivalent of EUR 330 billion globally by early 2018. The total market capitalization of all cryptocurrencies together in that period peaked at an even higher USD 728 billion, dropping just three weeks later to approximately USD 360 billion. 2 Regulators are looking at whether — and how — to regulate cryptocurrencies. Up till now there is no univocal view on how to do that. In any event, there are compelling reasons why cryptocurrencies should be under more scrutiny by regulators and supervisors. The threat of price volatility, speculative trading, hack attacks, money laundering and terrorist financing all call for stricter regulation. This topic deep dives into the latter issue. According to many,

aside from the instability of cryptocurrency prices, these cryptocurrencies must have greater regulatory oversight in order to prevent illegal activity and illegitimate use. Aside from the instability of cryptocurrency prices, regulators are worrying about criminals who are increasingly using cryptocurrencies for activities (trading away from official channels) like fraud and manipulation, tax evasion, hacking, money laundering and funding for terrorist activities. The problem is a significant one: even though the full scale of misuse of virtual currencies is unknown, its market value has been reported to exceed EUR 7 billion worldwide.

C) The Scope

Cryptocurrencies and blockchain are a monstrous topic. There are several hundreds of cryptocurrencies and the applications of blockchain technology are also numerous. To make this topic a useful and focused one, it needs to be narrowed down. To do this, the research attaches to multiple connecting factors, defining its scope.

Firstly, the topic is limited to cryptocurrencies and blockchain. This means that other types of assets than cryptocurrencies, such as tokens or crypto securities, are not within the scope of this topic. The subject of how these assets differ from cryptocurrencies will be explained further on. This topic will also not elaborate on derivatives of cryptocurrencies, which are essentially investment instruments. Blockchain will be scrutinized to the extent cryptocurrencies run on this technology. Therefore, blockchain technology will not be looked at outside of the context of cryptocurrencies, such as it being used as a technique to eliminate intermediaries in the financial, public or other sector. This would lead to far and exceeds the scope of this topic.

Secondly, the topic relates to the legal context of cryptocurrencies and blockchain. The focus is, hence, a legal one. This means that this topic will not elaborate on all the technical aspects – and there are many – relating to cryptocurrencies and blockchain. It will be only touched upon those to the extent necessary to understand the legal context. We will also not take an economic, criminological or any other approach than a legal one. We focus on the EU legal context. Therefore, we will not elaborate on the international or national context, unless it is relevant to better understand the European context.

Thirdly, the legal context is addressed in connection with the implications for financial crime, money laundering and tax evasion. Therefore, we will only scrutinize the legal context of cryptocurrencies and blockchain to the extent relevant in connection with financial crime, money laundering and tax evasion. We will do this by assessing what exactly cryptocurrencies and blockchains are, what challenges they bring from the perspective of combating financial crime, money laundering and tax evasion, to which extent they are caught by legislation at European level and what could be done to improve the legal framework. We will not deep dive into other legal queries than those related to money laundering, terrorist financing and tax evasion, such as the qualification of cryptocurrencies under tax laws or the protection of investors in cryptocurrencies (whether or not consumers) under financial services laws. Although very interesting, these queries exceed the scope of this topic.

Lastly, the topic relates to financial crime, money laundering and tax evasion. Financial crime is no term of art. Generally speaking, it is used as an umbrella term to designate all sorts of crimes relating to the use of finances, such as fraud, theft, tax evasion, bribery, money laundering, terrorist financing, etc. In an EU context, financial crime includes inter alia crimes against the integrity of the financial sector, such as money laundering and insider dealing, and crimes against the financial interest of the Union, such as fraud. In this topic we will not

elaborate on all imaginable financial crimes. On the contrary, we will focus on money laundering, terrorist financing and tax evasion as subtypes of financial crime. This focus can be justified for a number of reasons. Firstly, money laundering, terrorist financing and tax evasion are at the forefront of the EU's efforts on combating financial crime. Furthermore, the EU is clearly taking the approach to address cryptocurrency issues via anti-money laundering and counter terrorism financing legislation. This topic acknowledges that approach and takes the same one. Secondly, leaving theft aside, money laundering, terrorist financing and tax evasion are probably the three types of financial crimes that are likely to be most associated with cryptocurrencies and blockchain, i.e. when persons commit a crime relating to cryptocurrencies and blockchain, the likelihood of that crime being money laundering, terrorist financing and/or tax evasion is high. Cryptocurrencies are thought to be very suitable for money laundering, terrorist financing and tax evasion purposes because of their anonymity, cross-borders nature and quick transferability. Thirdly, some crimes simply cannot be committed at this stage via cryptocurrencies. Financial crimes such as market abuse and insider dealing are for instance of no relevance for cryptocurrencies. Market abuse rules relate to financial instruments traded on a regulated market, a multilateral trading facility ("MTF") or an organized trading facility ("OTF"). For the application to cryptocurrencies this poses two problems: cryptocurrencies are not financial instruments and they are not traded on a regulated market, MTF or OTF. The topic starts with a definition of cryptocurrencies and blockchain. After that, a taxonomy of cryptocurrencies will be given on the basis of an analysis of the 10 cryptocurrencies with the highest market capitalization. This taxonomy will serve as a benchmark throughout this topic and will allow to verify the adequacy of the existing and upcoming legal framework.

D) Overview of The Policy Recommendations for Future EU Standards

- To unveil the anonymity of cryptocurrency users the EU should consider a system of mandatory registration of users and a pre-set date as of which it applies rather than a system of voluntary registration of users.

- The EU should also think about expanding the list of "obliged entities" under AMLD5 with those players that are identified in this study as the weak spots or have great potential of being weak spots, including miners, pure cryptocurrency exchanges that are not also custodian wallet providers, software and hardware wallet providers, trading platforms and coin offerors.

- Furthermore, the EU should think about imposing a specific ban on such aspects surrounding cryptocurrencies that are aimed at making it impossible to verify their users (e.g. mixing) and criminally sanctioning these aspects.

- In addition, the EU could consider extending the scope of the Funds Transfer Regulation to make sure that all relevant information accompanying cryptocurrency transactions is there, allowing an adequate money laundering and terrorist financing check. The entities that would have to fulfil the requirements could be the intermediaries through which the transactions run.

- In the longer term, the EU should consider developing a tailored and more comprehensive framework for cryptocurrencies, and setting EU standards for cryptocurrencies in line with suggestions and recommendations made by the EBA, including license requirements for cryptocurrency service providers. Part of such a framework could be to create or impose a "middleman", where the use of blockchain or

other distributed ledger technology has cut out such middleman, as this will allow the regulator to attach regulation to an identifiable person, thus contributing to enhanced compliance and effective enforcement.

- With a view of achieving unified regulation of cryptocurrencies at G20 level, it is recommended that the EU leads further initiatives by example.

- The EU should leave blockchain be from a money laundering, terrorist financing and tax evasion perspective and focus on the illicit use cases of cryptocurrencies. Blockchain is just technology and can have beneficial effects in a wide array of sectors. Its development as such should not be discouraged.

E) Executive Summary

More and more regulators are worrying about criminals who are increasingly using cryptocurrencies for illegitimate activities like money laundering, terrorist financing and tax evasion. The problem is significant: even though the full scale of misuse of virtual currencies is unknown, its market value has been reported to exceed EUR 7 billion worldwide. This topic elaborates on this phenomenon, focusing on the use of cryptocurrencies for financial crime, money laundering and tax evasion.

The key issue that needs to be addressed is the anonymity surrounding cryptocurrencies. This anonymity, varying from complete anonymity to pseudo-anonymity, prevents cryptocurrency transactions from being adequately monitored, allowing shady transactions to occur outside of the regulatory perimeter and criminal organizations to use cryptocurrencies to obtain easy access to "clean cash". Anonymity is also the major issue when it comes to tax evasion. When a tax authority does not know who enters into the taxable transaction, because of the anonymity involved, it cannot detect nor sanction this tax evasion.

The existing European legal framework is failing to deal with this issue. There are simply no rules unveiling the anonymity associated with cryptocurrencies. However, the tide is changing. The fifth revision of the directive on money laundering and terrorist financing, AMLD5, is in the final phase of being adopted. AMLD5 includes a definition of virtual currencies and subjects' virtual currency exchange services and custodian wallet providers to customer due diligence requirements and the duty to report suspicious transactions to financial intelligence units. The information obtained can also be used by tax authorities to combat tax evasion.

AMLD5's definition of virtual currencies is sufficient to combat money laundering, terrorist financing and tax evasion via cryptocurrencies. Nevertheless, it is important to closely follow-up on the use cases of virtual currencies to ascertain that the definition remains to be a sufficient one going forward.

When looked, the key players in cryptocurrency markets, we can see that a number of those are not included in AMLD5, leaving blind spots in the fight against money laundering, terrorist financing and tax evasion. The examples are numerous and include miners, pure cryptocurrency exchanges that are not also custodian wallet providers, hardware and software wallet providers, trading platforms and coin offerors. Persons with malicious intent could look up these blind spots. If that would happen and it would appear to have a (material) adverse effect on the fight against money laundering, terrorist financing and tax evasion, expanding the scope of AMLD5 should be considered.

With respect to unveiling the anonymity of users in general (i.e. also outside of the context of virtual currency exchanges and custodian wallet providers), no immediate action is taken. Only in its next supranational risk assessment, the Commission will assess a system of voluntary registration of users. This approach is not very convincing if the legislator is truly serious about unveiling the anonymity of cryptocurrency users to make the combat against money laundering, terrorist financing and tax evasion more effective. A mandatory registration and a pre-set date as of which it applies, would be a better approach, albeit of course more intrusive. For reasons of proportionality, mandatory registration could be made subject to a materiality threshold.

For some aspects relating to some cryptocurrencies a ban should be considered. To mind come the features that are designed to make cryptocurrency users untraceable. Why is such a degree of anonymity truly necessary? Would allowing this not veer too far towards criminals? In any event, imposing a ban should always be focused on specific aspects facilitating the illicit use of cryptocurrency too much.

The European level is appropriate to address money laundering, terrorist financing and tax evasion via cryptocurrencies. Even more appropriate is the international level, as crypto activity is not limited by the European border. International collaboration is crucial to successfully impose and enforce rules on combating money laundering, terrorist financing and tax evasion. From a regulatory perspective, the ongoing G20 attention paid to regulating cryptocurrencies is therefore welcome.

As regards blockchain, it would be too blunt to associate blockchain with money laundering, terrorist financing or tax evasion. It is just technology, on which a large number of cryptocurrencies run, but which is not designed to launder money, facilitate terrorist financing or evade taxes. Blockchain has numerous applications throughout the whole lawful economy. It would not be wise to discourage future innovations in this respect by submitting blockchain and fintech's exploring its use cases to burdensome requirements, simply because of one of the applications using blockchain technology, cryptocurrencies, is used illicitly by some. Therefore, blockchain should be left untouched from a money laundering, terrorist financing and tax evasion perspective. The fight against money laundering, terrorist financing and tax evasion should focus on the illicit use cases of cryptocurrencies.

F) Questions to be considered:

1. Why has cryptocurrency fraud become such a problem?

2. Who typically falls victim to these scams?

3. What are the most common types of cryptocurrency fraud to watch out for and how do they work?

4. What role should authorities and regulators play in addressing the issue?

5. How can companies and investors mitigate against the risk of cryptocurrency fraud?

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