

CRYPTOCURRENCY REGULATION

A Topic Proposal for the National Federation of High Schools Topic Selection Committee

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Summary Report

Title: Cryptocurrency Regulation

Resolutions:

- (1) Resolved: The United States federal government should substantially regulate the use and exchange of cryptocurrencies and non-fungible tokens (NFTs) in the United States.
- (2) Resolved: The United States federal government should regulate the cryptocurrency market in one or more of the following areas: centralized exchanges, stable coins, non-fungible tokens (NFTs), layer one and layer two protocols, and digital currencies.
- (3) Resolved: The United States federal government should prohibit the use of cryptocurrencies and associated assets in the United States.
- (4) Resolved: The United States federal government should establish a regulatory framework to classify cryptocurrencies as an asset class which needs regulation under the Securities and Exchange Commission (SEC).
- (5) Resolved: The United States federal government should reduce regulation of blockchain technologies.
- (6) Resolved: The United States federal government should reduce regulation of cryptocurrencies.

Affirmative Ground:

Affirmative teams will be able to deploy different regulatory schemes to issues that cryptocurrency intersects with. These areas include cybersecurity, internet finance, financial technology, terrorism, crime, economic growth, banking stability, environmental damage, investment, and international development. Affirmative teams can take broad-based approaches to restructuring cryptocurrency or make sector-specific affirmatives.

Negative Ground:

Negative teams will be given multiple angles to attacks Affirmative cases from legal, economic, philosophical, or other strands of criticism. Negative teams can access an immense amount of depth given the proliferation of recent research on cryptocurrency. Although Affirmatives may vary Negative teams will have access to a set of strong generic arguments like deregulation good, state reform counterplans, investment and confidence disadvantages, and capitalism critiques that fundamentally challenge topic action.

Balance:

Cryptocurrency literature is robust and many substantive questions about the value of regulation vis a vis advantage areas are currently unanswered and the subject of active debate. There are some definitive advantages to either approach and contestable issues that fall in between regulation good and regulation bad. Both sides of a given debate will be given a healthy pool of supporting literature to bring to any given debate.

Topic Introduction

Between 2019 and 2021, the investment in and use of cryptocurrencies has exploded, more than tripling over the last five years.ⁱ Artists such as Beeple were selling their artwork using non-fungible tokens (NFTs) for millions of dollars. The amount of Open Sea users, the exchange to buy, sell and trade NFTs, skyrocketed. With financial success stories flooding social media such as Twitter, people jumped into the frenzy. At the same time several cryptocurrencies started flooding the market. After the COVID-19 pandemic took hold, cryptocurrencies took a tumble.

When governments started enacting stimulus programs to help spur economic growth, the value of cryptocurrencies shot for the moon. During the time scammers emerged on Discord and Telegram where most discussions and involvement in cryptocurrency projects take place. Investors lost millions of dollars by either investing in projects where the developers and/or artists disappeared with their money, or they were conned into giving away their credentials for their digital wallets which store the tokens and currencies.

Furthermore, the rise of stable coins also happened during this time. These coins are supposed to be pegged to the U.S. dollar. Large hedge funds took advantage of this by shorting certain protocols which distribute stablecoins as rewards for staking (giving up personal ownership of cryptocurrencies for a set period in return for cryptocurrency as a reward).ⁱⁱ An example of this is anchor protocol.ⁱⁱⁱ Anchor protocol issued UST for holders who staked their Terra (LUNA) token. This protocol collapsed in the crypto bear market of 2022, and the value plummeted. The token went from \$100 - \$.000001.^{iv}

Financial gurus like Janet Yellen, Jerome Powell, Christine Lagarde, and Gary Geisler, have all spoken out against stablecoins.^v It is not all doom and gloom, though. Millions of people have benefited financially from cryptocurrencies. One example is the game, Axie Infinity.^{vi} This play-to-earn model of blockchain gaming has allowed individuals in economically developing countries to make a living playing an online game. Furthermore, Yuga Labs, creator of Bored Ape Yacht Club, a non-fungible token providing several useful benefits to holders, rose to fame. Bored Ape Yacht Club apes are now worth over 150 Ethereum.^{vii} The Bored Ape NFTs became targets of scammers and some people have lost tokens worth hundreds of thousands of dollars each. These frauds have also called for a new regulatory framework.^{viii}

The financial turmoil of the Spring 2022 crypto winter dramatically impacted centralized exchange liquidity. Companies such as Celsius have suspended withdrawals. BlockFi has lost billions of dollars in valuation. Mark Cuban backed cryptocurrency lending company, Voyager, is bankrupt. A run on these exchanges and lending companies led to a significant decline in the market capitalization of all cryptocurrencies including Bitcoin and Ethereum. Governments across the world have taken notice, especially the European Union and the United States. It is not a question of if but when the federal government acts to rein the industry in.

Finally, influencers also engage in pump and dump schemes of “alt coins.” These coins have smaller market capitalizations and can rise and fall in price dramatically. Famous people like Elon Musk, Mark Cuban, Paris Hilton and the Winklevoss twins have jumped into deep crypto waters. These celebrities can influence the average person to purchase a token or digital piece of art. Regulators have called for this to end as these celebrities can have undue influence over the market. It is not a question of if the federal government will act to shore up concerns

regarding cryptocurrencies but when the U.S. will act.^{ix} The topic is incredibly timely and high school students are interested in cryptocurrency and NFTs. Now is a key time to discuss proper regulations of the cryptocurrency space.

High school students have taken a keen interest in NFTs and cryptocurrency. Just like there are stock market games in high school business education courses, eventually, financial literacy classes will include being knowledgeable about cryptocurrencies and the metaverse. There are mental health and security concerns associated with the topic too. Furthermore, cryptocurrencies intersect with capitalism, race, gender, and sexuality as well. The topic covered a broad range of arguments and topic that sure to engage high school students.

Argument Potential

Introduction & Timeliness

Cryptocurrencies and discussions surrounding them by the public, lawmakers, academics, and more all suggest that there is no better time to produce robust debates on the issue than now. There are new innovations and public outcries suggesting the timeliness of the resolution does not reduce the overall balance of the topic area. There are news stories daily that discuss the use of cryptocurrencies and their cultural impacts across the world.

Scope

The topic affects everyone. Sustainable cryptocurrencies can be a tool for economic mobility and reconceptualize how accessible the economy can be. This asks regulatory schemes a core question of who ends up benefitting from cryptocurrencies and what potential it has for society. The topic can promote discussions of regional investment that are otherwise impossible without blockchain innovations. The decentralized nature of cryptocurrency allows access to it

from a broad range of demographic groups. The cultural impact of cryptocurrencies and NFTs also impacts the scope of the topic.

Range & Quality

While varsity teams may lean into extremely nuanced regulatory schemes across the course of a season novice debaters will find the topic inviting and engaging all year long. Affirmative plans that establish basic requirements like reporting, accessibility regulations, and consumer protections can discuss current events, recent history, and personal experience as they relate to the advantages.^x Negative teams that introduce environment disadvantages or anti-regulation positions will be able to engage the case on a topic area that is not settled and still ensure the debate is not overly technical. The topic's beauty is that generalized affirmatives fall right in line with the proposed resolutions, but the depth of the topic allows varsity innovation for a year of debates. The topic can be simple for novices (whether government regulations stifle an innovative sector of the economy). Or the topic can be advanced for varsity (whether government regulations can be solved through a counter proposal or kritik of the methodology of the resolution itself).

Material & Interest

There is a wealth of literature bases that are engaging in discussions about cryptocurrency innovations. Debaters will be able to debate broad issues such as terrorism, the environment, the economy, international relations, international law in technology, democratic stability, and development while still having a topic intimately related to structural issues such as inequality, poverty, and institutional access.^{xi} The topic is an excellent launchpad for debaters to explore their personal interests. The wealth of literature on cryptocurrency combined with a familiar

resolution format of generating new regulations means debaters will experience something new without feeling alienated by the technical nature of cryptocurrencies. Cryptocurrency regulation is easily accessible to all. There should not be issues of students who do not have equitable access to research involving this topic.

Balance

There are empirical examples of both sides of the literature demonstrating topic balance as a subject of debate. Successful regulations and failed regulations around benevolent and malicious cryptocurrencies all within recent history create the potential for a robust debate topic. Both teams will have a wealth of literature from law, economics, finance, and technology that disagree on the best approach to cryptocurrency management. The essential question of the topic allows for a fair division of ground between the Affirmative and Negative teams.

Distribution of Ground

Affirmative

Cryptocurrency use is on the rise in the United States and the rest of the world. There are over two thousand cryptocurrencies worldwide compared to 180 official currencies that pose manifold national security risks in absence of a good regulatory scheme.^{xii} As consumers begin to purchase and use cryptocurrency, however, individuals experience a growing list of potential problems. To prevent consumers from getting taken advantage of and to instill legitimacy into the cryptocurrency market, regulation is needed.^{xiii} The affirmative ground would include regulation aspects of the cryptocurrency industry such as stablecoins, non-fungible tokens (NFTs), centralized exchanges and decentralized liquidity pools. Cryptocurrency can be an integral part of the rapidly growing fintech (financial technology) innovation as it relates to bank

consolidation.^{xiv} The cryptocurrency industry is ripe with swindles and rug pulls (when a development team suddenly ghosts the project taking inventors money with them). As base protocols (Ethereum, Bitcoin, etc.) try to scale, increased layer two solutions (such as polygon) are coming into play.

Literature reviews suggest unregulated cryptocurrencies can create problems for internet security, terrorist organizing, voting manipulation, institutional attacks, lobbying, shadow economy financing, drug trafficking, corruption, fraud, and environmental damage that only new regulations can address.^{xv} A stable regulatory framework would go a long way in ensuring consumer protections as well as lead to innovation in the industry leading to substantial benefits including a rise in soft power.^{xvi xvii} This can provide direct economic benefits to consumers, prevent illicit financing, and provide long-term impacts on financial stability.^{xviii} Federal regulation is needed in order to create uniformity and cohesion between states.^{xix} Furthermore, there is plenty of room for modeling arguments. Europe and international organizations such as the World Bank and the International Monetary Fund are looking to the U.S. as to how to approach cryptocurrencies. As many countries such as China create digital versions of their fiat currency, the U.S. needs to send a proper signal as to how to protect consumers in the emerging digital asset market.^{xx}

Negative

Cryptocurrencies are by nature, decentralized. Negative teams will have access to a dearth of literature defending the underlying technologies of blockchain. Negative ground could include private actor counterplans, states counterplans, regulation bad core arguments, and solvency attacks that they say regulation of cryptocurrencies will eventually kill the industry.^{xxi}

An example of this is when the passage of HR 3684, the “Infrastructure Investment and Jobs Act,” included a provision known as a “pay for” which required specific reporting requirements in cryptocurrencies. The provision was full of errors and clearly illustrated that members of Congress do not know how to properly address cryptocurrencies. Regulations such as Know Your Consumer (KYC) may lead to databases that compromise the cybersecurity of blockchain transactions, leading to robust debates within the affirmative’s case.

Negative ground can include solvency attacks that say laws will not be effective. Additionally, domestic growth or levels of international remittances could potentially be stifled in a world in which the United States federal government overregulates the industry. Counterplan ground could move to decrease regulations or change mechanisms through the International Monetary Fund, the World Bank, Consult the European Union, Consult Canada, Consult Japan, etc. All these entities are interested in how to approach and regulate cryptocurrencies. There is plenty of kritikal ground as well. There are specific kritiks of government regulation as well as links based on claims that capitalism and economic growth is good. Furthermore, the Affirmative promotion of cryptocurrency could hurt the environment.^{xxii} As of now, Bitcoin (the most popular cryptocurrency by market capitalization) is a proof of work validation method. This requires a lot of energy to complete. Ethereum (the second most popular cryptocurrency by market capitalization) also has proof of work validation. It is currently in a process to upgrade to a proof of stake model that consumes less energy and allows more scalability. This is not guaranteed, though, and current expenses to transact and current energy use is high with the Ethereum mainnet.

Proposed Wordings

Resolved: The United States federal government should substantially regulate the use and exchange of cryptocurrencies and non-fungible tokens (NFTs) in the United States.

Resolved: The United States federal government should regulate the cryptocurrency market in one or more of the following areas: centralized exchanges, stable coins, non-fungible tokens (NFTs), layer one and layer two protocols, and digital currencies.

Resolved: The United States federal government should prohibit the use of cryptocurrencies and associated assets in the United States.

Resolved: The United States federal government should establish a regulatory framework to classify cryptocurrencies as an asset class which needs regulation under the Securities and Exchange Commission (SEC).

Resolved: The United States federal government should reduce regulation of blockchain technologies.

Resolved: The United States federal government should reduce regulation of cryptocurrencies.

Definitions

Cryptocurrency is a subject of ripe Topicality debates while still being definable by technical description of the cryptocurrency, outlining its financial function, or combining technical and financial characteristics, trying to derive a legal concept based on the usual technique of law writing.^{xxiii} There is evidence that draws limiting lines such as cryptocurrencies being distinct from private digital currencies, virtual currencies, and national digital currencies because of their autonomy and algorithm determining emission.^{xxiv}

Cryptocurrency (n.): a digital currency produced by a public network, rather than any government, which uses cryptography to make sure payments are sent and received safely: *cryptocurrencies such as bitcoin.*^{xxv}

Blockchain: A blockchain is a decentralized, distributed, and public digital ledger that is used to record transactions across many computers so that the record cannot be altered

retroactively without the alteration of all subsequent blocks and the collusion of the network.^{xxvi}

While affirmative teams have many reasonable appeals to distinct types of regulation, the literature suggesting limited definitions for cryptocurrency gives negative teams room to contest affirmative teams with robust, topic-specific Topicality violations.

Synopsis:

We should debate cryptocurrency regulation for the 2023-2024 season. Cryptocurrencies are expanding in their prevalence and significance every year. Cryptocurrency brings new questions to core issues like economic stability, environmental damage, terrorism, investment, and technological leadership that are ripe for debate. Students and educators will find that exploring the vast arena of cryptocurrency through the limited lens of regulation produces balanced, robust debates over timely, real-world controversies.

Evidence

Affirmative Ground

There are robust affirmative advantage areas

Limba et. al. 19 (Tadas Limba, asst. professor at Mykolas Romeris University, PhD in Management and head of Joint Study Programs 'Informatics and Digital Contents,' Andrius Stankevičius, Faculty of Public security, Department of Law, lector at Mykolas Romeris University, and Antanas Andrulevičius, JSC 'Financial Figures,' consultant, "Towards Sustainable Cryptocurrency: Risk Mitigations From a Perspective of National Security," Volume 9 Number 2, December 2019, [http://doi.org/10.9770/jssi.2019.9.2\(2\)\)/NRG](http://doi.org/10.9770/jssi.2019.9.2(2))/NRG)

2. Literature review

For literature review authors have chosen few lines to discuss a) cryptocurrency risk to national security b) the importance of cryptocurrency environment quality c) the integrity of cryptocurrency and shadow economy d) ways to improve cryptocurrency quality from a perspective of national security e) challenges regulating cryptocurrency.

Cryptocurrency risks to national security.

According to Tvaronaviciene (2018), cybersecurity threats to national economies has a wide range of facets as: a) internet and terrorism b) exploitation of social networks for various purposes b) manipulation of voting c) attack on institutions of critical importance. Limba et al. (2019a, 2019b) state that cryptocurrency influence national security in various ways. The matrix influence reflects the depth and volume of the interaction of cryptocurrencies and national security. As cryptocurrency is the infrastructure for critical infrastructure from a perspective of cyber threats it is critical infrastructure for digital shadow economy (Table 1).

Table 1. Cryptocurrency threat to National Security risk classification

I. Crypto currency as an infrastructure for criminal activity		II. Threats to economic security		III. Threats to public security	
<i>1. A tool for criminal activity</i>	A. An Internet platform for drug dealers	<i>1. Direct forms</i>	A. Illegal trade activity	<i>1. Direct forms</i>	A. Organized crimes: • drug trafficking; • crime (illegal. activity; • money theft; • criminal fraud; • tax evasion and tax fraud.
	B. Illegal trade in wide meaning		B. Tax evasion: • illegal finance-banking activity; • money laundering; • tax fraud; • money transit.		
	C. Tax evasion: • money laundering; • money layering; • money transit.		C. Corruption.		
<i>2. As an object of criminal activity</i>	A. Money theft	<i>2. Indirect forms</i>	A. Competitiveness	<i>2. Indirect forms</i>	A. Financing terrorism
	B. Criminal fraud activity		B. Social exclusion		B. Hybrid threats
	C. Corruption		C. Non-transparent lobbying activity D. Trust in the government		C. Threats to the objects of a critical infrastructure

According Limba et al. (2019), cryptocurrency as infrastructure brings the following potential risks: a) money theft, b) a lack of arbitrage, c) money laundering, d) tax avoidance, e) financing terrorism. Tvaronaviciene (2018) states “main efforts should be taken to provide security for their critical infrastructure because only this can ensure the wellbeing of the country and its people”.

The importance of cryptocurrency environment quality. According to Tvaronaviciene (2018) “contemporary environment in conditions of globalization predicting of development peculiarities and external factors’ impact becomes an especially urgent issue”. Stankevicius et al. (2018) stated, that “critical infrastructure system has a dynamic, evolutionary character in the context of social change”

The integrity of cryptocurrency and shadow economy. Limba et al. (2019a) state “negative factors of cryptocurrency are typical (homogeneous) for most countries”. If negative factors are homogenous, ways to mitigate negative factors are homogenous as well. Besides urgency globalization brings need to cooperate building and fulfilling norms of activities as Štitalis et al. (2016) stress the importance of cybersecurity international integrity development. Scientists emphasize that cybersecurity shall be developed in two levels: 1) locally 2) global cooperation of cybersecurity development. Desmond et al. (2019) findings are that “the cryptolaundrying process is considered to be a complex socio-technical system”. Novikovas et al (2017), states, that “countries must feel concern regarding consolidation of their security”. However despite the need of global integrity and cooperation according to Zetzsche et al. (2018) “There is a strong differentiation of treatment among countries and low levels of legal certainty”.

Unregulated cryptocurrency is a threat to financial stability

Lagarde, IMF Managing Director, 18 (Christine Lagarde, former French Finance Minister former French Minister of State for Foreign Trade, Former partner with the international law firm of Baker & McKenzie, <https://blogs.imf.org/2018/03/13/addressing-the-dark-side-of-the-crypto-world/>, “Addressing the Dark Side of the Crypto World”, March 13, 2018, twm)

The result is a potentially major new vehicle for money laundering and the financing of terrorism.

One recent example reveals the scope of the problem.

In July 2017, an international operation led by the United States shut down AlphaBay, the largest online criminal marketplace on the internet. For more than two years, illegal drugs, hacking tools, firearms, and toxic chemicals were sold all over the world through AlphaBay. Before the site was taken offline, more than \$1 billion had been exchanged through crypto-assets.

Of course, money laundering and terrorist financing is only one dimension of the threat. Financial stability is another. The rapid growth of crypto-assets, the extreme volatility in their traded prices, and their ill-defined connections to the traditional financial world could easily create new vulnerabilities.”

Unregulated cryptocurrency will spur climate change

Bosotti 18 (Aurora Bosotti, 1/25/18, “Bitcoin WILL come under MORE regulation to protect global finance from criminal activity” <https://www.express.co.uk/finance/city/909736/Bitcoin-price-news-today-worth-cryptocurrency-Ripple-ethereum-XRP-USD-IMF-crime-video>, SM)

"There will be innovations, there will be changes, there will be newcomers. What needs to change is our regulatory approach. We cannot continue looking at things." Bitcoin is a cryptocurrency not controlled by a single administrator and can be used to buy things worldwide electronically. Bitcoin's popularity has caused demand to skyrocket throughout 2017, pushing other cryptocurrencies like Ripple and ethereum to also reap the benefits of the cryptocurrency craze. South Korea announced plans to “legalise” cryptocurrency trading for registered real-name accounts only in a bid to tackle anonymity in trading. Real names will have to be used starting from January 30. The IMF President also said that other than the financial security risks, bitcoin could

threaten to worsen climate change because of the amount of energy used for bitcoin mining. She continued:

"Bitcoin mining, which is this accelerated use of computers to actually determine the value and incentivise the functioning of the mechanism, is energy hungry. "We figured that in 2018 if it continues, that system will likely consume as much energy as Argentina. That's big and in times of climate change, it's a big concern." The anonymity of it is likely to facilitate money laundering and things that no one is happy about Christine Lagarde But Mrs Lagarde revealed some banks are looking into using bitcoin's support technology, the blockchain, to create their own

cryptocurrency and establish a transparent system to monitor transactions. The blockchain is a system that allows the transmission of digital information but blocks attempts to copy the data. Speaking to Bloomberg from the World Economic Forum in Davos, the IMF boss continued: "What is fascinating about the bitcoin movement is the technology that is underneath. This technology guarantees identification, trustability, authentication of transactions without interference, without intermediation. "That's fascinating and could be used in multiple circumstances: tracing transactions, land registry, you just name it. And some central banks are looking at it to use for their own cryptocurrency."

Regulations key to stopping money laundering, terrorism, and cyber crime.

Bosotti 18 (Aurora Bosotti, 1/25/18, “Bitcoin WILL come under MORE regulation to protect global finance from criminal activity” <https://www.express.co.uk/finance/city/909736/Bitcoin-price-news-today-worth-cryptocurrency-Ripple-ethereum-XRP-USD-IMF-crime-video>, SM)

BITCOIN, Ripple and ethereum are slowly recovering from a value plunge sparked by threats of worldwide governmental regulation but IMF boss Christine Lagarde said cryptocurrencies need to be controlled to crackdown on financial criminal activity.

Bitcoin and competitors Ripple and ethereum saw prices collapse after the South Korean Government announced it would seek to regulate cryptocurrency transactions. Bitcoin skyrocketed to a whopping \$20,000 shortly before Christmas but prices have steadied around \$11,000 since the announcement. But Mrs Lagarde said more governments and banks will seek to further control the way bitcoin is used to protect financial stability. She said: "The anonymity of it is likely to facilitate money laundering, dark money moving around and things that no one is happy about if you're looking for financial stability and transparency of financial transactions." There will be innovations, there will be changes, there will be newcomers. What needs to change is our regulatory approach. We cannot continue looking at things." Bitcoin is a cryptocurrency not controlled by a single administrator and can be used to buy things worldwide electronically. Bitcoin's popularity has caused demand to skyrocket throughout 2017, pushing other cryptocurrencies like Ripple and ethereum to also reap the benefits of the cryptocurrency craze. South Korea announced plans to "legalise" cryptocurrency trading for registered real-name accounts only in a bid to tackle anonymity in trading. Real names will have to be used starting from January 30. The IMF President also said that other than the financial security risks, bitcoin could threaten to worsen climate change because of the amount of energy used for bitcoin mining. She continued: "Bitcoin mining, which is this accelerated use of computers to actually determine the value and incentivise the functioning of the mechanism, is energy hungry. We figured that in 2018 if it continues, that system will likely consume as much energy as Argentina. That's big and in times of climate change, it's a big concern." The anonymity of it is likely to facilitate money laundering and things that no one is happy about Christine Lagarde But Mrs Lagarde revealed some banks are looking into using bitcoin's support technology, the blockchain, to create their own cryptocurrency and establish a transparent system to monitor transactions. The blockchain is a system that allows the transmission of digital information but blocks attempts to copy the data. Speaking to Bloomberg from the World Economic Forum in Davos, the IMF boss continued: "What is fascinating about the bitcoin movement is the technology that is underneath. This technology guarantees identification, trustability, authentication of transactions without interference, without intermediation. That's fascinating and could be used in multiple circumstances: tracing transactions, land registry, you just name it. And some central banks are looking at it to use for their own cryptocurrency." According to Coindesk, bitcoin was trading for \$11,239.45 at 2.43pm GMT on January 25. Ripple's price was recorded at \$1.33 at while competitor ethereum traded for \$1,064.3 at 2.44pm. The prices of the three cryptocurrencies are all on the rise over the last 24 hours but Bill Winters has warned the prices could soon fall. The CEO of Standard Chartered said he could not see any way where the cryptocurrencies and Blockchain were not going to be looked into by authorities. He said: "We think it is very real, it is fundamental. We have got some extremely interesting early stage developments how clearing currency pairs with disrupted technology. The cryptocurrencies themselves I imagine will find themselves quite regulated." The crypto community will be watching on as world leaders discuss 'The Crypto-Asset Bubble' at Davos today. The Speakers are expected to tell the audience that regulation is needed to stop money laundering, terrorism and cyber-crime. The speakers are Jennifer Zhu Scott, Neil Rimer, Cecilia Skingsley, Yang Yanqing and, Nobel-prize winning economist Robert J. Shiller, who has made his position quite clear in the past.

Know Your Consumer (KYC) and Anti-Money Laundering (AML) regulations can be a key response

Limba et. al. 19 (Tadas Limba, asst. professor at Mykolas Romeris University, PhD in Management and head of Joint Study Programs 'Informatics and Digital Contents,' Andrius Stankevičius, Faculty of Public security, Department of Law, lector at Mykolas Romeris University, and Antanas Andrulevičius, JSC 'Financial Figures,' consultant, "Towards Sustainable Cryptocurrency: Risk Mitigations From a Perspective of National Security," Volume 9 Number 2, December 2019, [http://doi.org/10.9770/jssi.2019.9.2\(2\)\)/NRG](http://doi.org/10.9770/jssi.2019.9.2(2))/NRG)

Ways to improve cryptocurrency quality from a perspective of risks to national security. Limba et al. (2019) state that lack of AML and KYC procedures in cryptocurrency case increase terrorist act risk. Therefore it is essential systematically develop research interaction between disruptive technologies (including Bitcoin – authors remark) and cybersecurity. Barone et al. (2019) and Danton (2014) determines anonymity and lack of control as a key money laundering elements. Clayton (2018) as a chairman of US Securities and Exchange Commission determined that KYC and AML procedures should be a must for ICO.

Regulation can overcome challenges to implementation

Limba et. al. 19 (Tadas Limba, asst. professor at Mykolas Romeris University, PhD in Management and head of Joint Study Programs 'Informatics and Digital Contents,' Andrius Stankevičius, Faculty of Public security, Department of Law, lector at Mykolas Romeris University, and Antanas Andrulevičius, JSC 'Financial Figures,' consultant, "Towards Sustainable Cryptocurrency: Risk Mitigations From a Perspective of National Security," Volume 9 Number 2, December 2019, [http://doi.org/10.9770/jssi.2019.9.2\(2\)\)/NRG](http://doi.org/10.9770/jssi.2019.9.2(2))/NRG)

Challenges regulating cryptocurrency.

Tkachenko et al. (2019) define that in Bitcoin – based system there is no possibility to ban the transfers immediately; there is only a possibility to regulate intermediaries or to implement penalties after the transactions are done. Authors identify as well, that Bitcoin – based system is a new type of financial infrastructure, therefore a new type of lawmaking and law enforcement is needed. Tu et al. (2015) after modelling cryptocurrency under existing US framework came to the conclusion that the development of an efficient regulatory regime for cryptocurrencies requires great interagency communication of regulatory consideration raised by virtual currency.

Negative Ground

KYC and AML are balanced areas to debate

Limba et. al. 19 (Tadas Limba, asst. professor at Mykolas Romeris University, PhD in Management and head of Joint Study Programs 'Informatics and Digital Contents,' Andrius Stankevičius, Faculty of Public security, Department of Law, lector at Mykolas Romeris University, and Antanas Andrulevičius, JSC 'Financial Figures,' consultant, "Towards Sustainable Cryptocurrency: Risk Mitigations From a Perspective of National Security," Volume 9 Number 2, December 2019, [http://doi.org/10.9770/jssi.2019.9.2\(2\)\)/NRG](http://doi.org/10.9770/jssi.2019.9.2(2))/NRG)

Moreover cryptocurrency is a digital product and its KYC and AML implementation differs from other financial instruments therefore its would additionally face following **challenges**:

- It is unclear **which institution will be able appropriately control procedure** implementations;
- It is unclear **whether competences of the supervision institution will be relevant** for implementation of KYC and AML procedures for IT based financial tool (cryptocurrency – authors remark);
- **Would it be efficient to implement KYC and AML procedures locally** as cryptocurrency is a product of global economy, whereas risks and mitigations are homogenous for all countries?;
- Cryptocurrency transactions cannot be stopped due to its autonomy.

Conclusions

- The research showed that regulation is necessary for cryptocurrency market although legal regulation was not the aim of the research. Authors emphasize that appropriate KYC and AML procedure implementation would have an impact on cryptocurrency risks integration.
- The KYC and AML procedures is necessary step to mitigate risk carried by cryptocurrency.
- Banking case study of AML and KYC procedures showed that despite of existing procedures there are still **outstanding risks** in procedure **implementation** and **follow up**, therefore it is important to execute further observation of KYC and AML procedure implementation execution.
- The research showed that there might be obstacles to implement KYC and AML procedures as a) cryptocurrency is a **product of global market** b) there is **no possibility to stop** Bitcoin **transaction due to its autonomy** c) cryptocurrency is a new for of financial product having IT based operating model, therefore the new competences shall be needed to implement appropriate KYC and AML regulations.

The financial sector can be a site for neg ground, especially citing poor rollout in other instances

Limba et. al. 19 (Tadas Limba, asst. professor at Mykolas Romeris University, PhD in Management and head of Joint Study Programs 'Informatics and Digital Contents,' Andrius Stankevičius, Faculty of Public security, Department of Law, lector at Mykolas Romeris University, and Antanas Andrulevičius, JSC 'Financial Figures,' consultant, "Towards Sustainable Cryptocurrency: Risk Mitigations From a Perspective of National Security," Volume 9 Number 2, December 2019, [http://doi.org/10.9770/jssi.2019.9.2\(2\)\)/NRG](http://doi.org/10.9770/jssi.2019.9.2(2))/NRG)

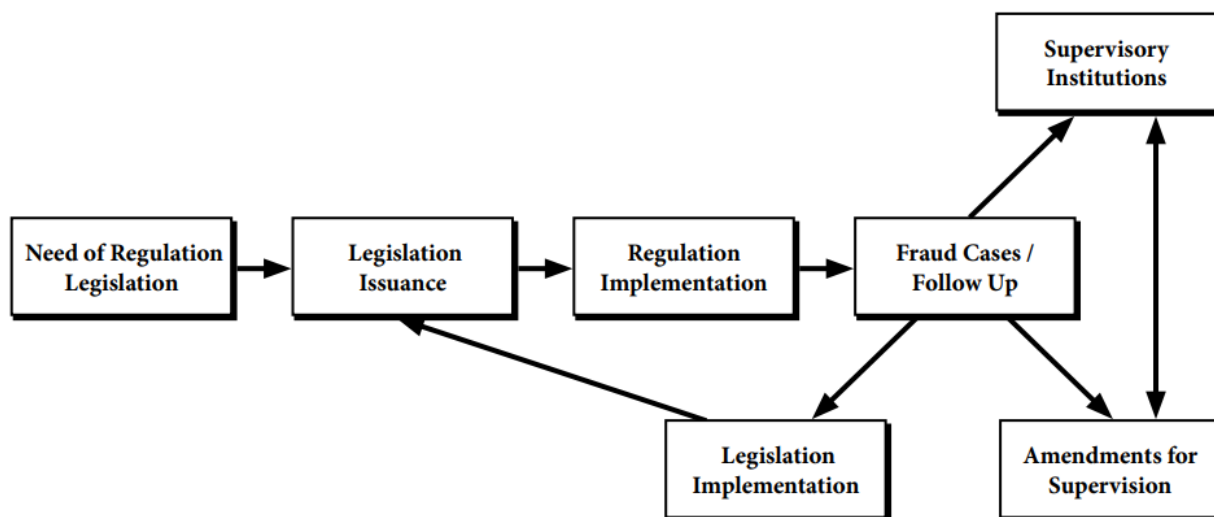
During the past few years, there was a row of money laundering cases in Banking sector: **Danske Bank** – 230 bln. USD (Bloomberg, 2019), **Swedbank** 10 bln. USD (Bloomberg, 2019), **Nordea** 405 mln. USD (Bloomberg, 2018), **ABLV** 102 mln. USD (The Baltic Course, 2018, Latvian Television, 2018). The money laundering cases were related to North Korea nuclear programme funding, money laundering by politicians and Russian citizens that are on the EU and USA sanction list. Unlike the Bitcoin Banks are listed in stock exchange, internal and external (BIG 4) auditors audit their financials, local authorities and ECB supervise them.

The outcome of Danske Bank independent auditors Brune & Hjejle (2018), is large scale money laundering case was caused by a) **inadequate KYC** procedure fulfilment b) **inadequate AML** procedure fulfilment c) lack or **response of reporting personnel**.

The tendency of KYC and AML implementation shows, that scientist hypothesis (Alldridge 2008, Gelemerova 2009, Subbotina 2009) regarding procedure implementation issues is confirmed by practical big scale money laundering cases, which are backed by institutional auditors Brune & Hjejle (2018) report.

The data of the money laundering cases should be used to make amendments in legislation of money laundering supervision. **The fraud cases shows that the AML and KYC procedure implementation for Banks are still needed for improvements** (Table 8).

Table 8. The process of Legislation issuance in financial sector and need of improvements



Source: made by authors

European commission has released 5th Money Laundering directive, which, will "limit the anonymity related to virtual currencies and wallet providers" (European Commission 2019). According European parliament decision (2018) it appears that there is background for risk mitigation implementation in Europe as KYC and AML procedures shall be implemented in custodian wallet providers and cryptocurrency – fiat currency exchanges. The Member States must transpose this Directive by 10 January 2020. Therefore it is expected that the risks related with KYC and AML procedures will be implemented in cryptocurrency market. European commission is considering that "These amendments introduce substantial improvement to better equip the Union to prevent the financial system from being used for money laundering and for funding terrorist activities."

"Regulations PIC/Self-regulation CP"

Counterplan text: the United States federal government should cooperate with the Virtual Commodity Association to facilitate self-regulation of cryptocurrency exchanges.

Self-regulation is effectively used by the CFTC and SEC to craft the best policies.

Glazer 18 (Phil, April 1, <https://hackernoon.com/cryptocurrency-regulation-update-april-2018-9778df2b6eac>, "Global Cryptocurrency Regulation Update (April 2018)", twm)

The Winklevoss Twins have submitted a proposal to create the Virtual Commodity Association, an industry non-profit focused on self-regulation amongst exchanges (March 13th, 2018): This is a step that has already been taken in Japan following the hack of CoinCheck (review the March Update for more details). In the US, there is meaningful precedent for this; as explained by Bloomberg, "Regulators including the CFTC and U.S. Securities and Exchange Commission heavily rely on self-regulatory organizations, or SROs, to help them monitor trading in everything from obscure swaps to shares in the biggest U.S. companies". The Financial Industry Regulatory Authority,

which is funded by the industry, is the front-line regulator for Wall Street brokerages. Currently, no federal regulator has direct authority over the cadre of exchanges that trade cryptocurrencies in the spot market. Instead, there's a patchwork of state laws serving as the legal framework that critics say invites abuse and potential manipulation." Overall, a move towards self-regulation would likely improve the standards held by exchanges while also helping regulators better understand the industry's issues to craft better policy going forward.

"International Response/Multilateralism CP"

Counterplan text: the International Monetary Fund should lead the G-20 in a coordinated response to crypto-currency regulations.

Worldwide cooperation is necessary to effectively regulate cryptocurrency to harness the benefits and avoid terrorism and money laundering.

Lagarde, former French Finance Minister, 18 (Christine, Managing Director of the International Monetary Fund, former French Minister of State for Foreign Trade, Former partner with the international law firm of Baker & McKenzie, degrees from Institute of Political Sciences (IEP) and from the Law School of Paris X University, March 13, <https://blogs.imf.org/2018/03/13/addressing-the-dark-side-of-the-crypto-world/>, "Addressing the Dark Side of the Crypto World", twm)

Indeed, the same innovations that power crypto-assets can also help us regulate them.

To put it another way, we can fight fire with fire.

Regulatory technology and supervisory technology can help shut criminals out of the crypto world. More broadly, we are seeing crypto-asset exchanges in some countries that are subject to know-your-customer requirements.

These advances will take years to refine and implement. Two examples highlight the promise of this approach over the long term:

Distributed ledger technology (DLT) can be used to speed up information-sharing between market participants and regulators. Those who have a shared interest in maintaining safe online transactions need to be able to communicate seamlessly. The technology that enables instant global transactions could be used to create registries of standard, verified, customer information along with digital signatures. Better use of data by governments can also help free up resources for priority needs and reduce tax evasion, including evasion related to cross-border transactions.

Biometrics, artificial intelligence, and cryptography can enhance digital security and identify suspicious transactions in close to real time. This would give law enforcement a leg up in acting fast to stop illegal transactions. This is one way to help us remove the "pollution" from the crypto-assets ecosystem.

We also need to ensure that the same rules apply to protect consumers in both digital and non-digital transactions. The U.S. Securities and Exchange Commission and other regulators around the world now apply the same laws to some initial coin offerings (ICOs) as they do to offerings of standard securities. This helps to increase transparency and alert buyers to potential risks.

But no country can handle this challenge alone.

Indispensable international cooperation

To be truly effective, all these efforts require close international cooperation. Since crypto-assets know no borders, the framework to regulate them must be global as well.

The successful closure of AlphaBay, for example, involved the cooperation of Europol and law enforcement agencies in the United States, Thailand, the Netherlands, Lithuania, Canada, the United Kingdom, and France.

Countries will have to decide collectively that this path is worth pursuing. Promisingly, the Group of Twenty (G-20) has agreed to put crypto-assets on the agenda of its November 2018 summit in Argentina.

The IMF will play its part in this effort. With our near-universal membership and expertise, including in battling money-laundering and terrorist financing, we are uniquely situated to be a forum for helping develop answers in the evolving crypto-asset space.

What comes next for crypto

The volatility of crypto-assets has prompted an intense debate about whether they are a bubble, just another fad, or a revolution equivalent to the advent of the internet that will disrupt the financial sector and eventually replace fiat currencies.

The truth is obviously somewhere in between these extremes.

As I have said before, it would not be wise to dismiss crypto-assets; we must welcome their potential but also recognize their risks.

By working together, and leveraging technology for the public good, we can harness the potential of crypto-assets while ensuring that they never become a haven for illegal activity or a source of financial vulnerability.

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