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Beijing International Model United Nations 2018

Background Guide

International Monetary Fund

Topic A:
IMF Quota and Governance Reform
Topic B:
Virtual Currency and Financial Security

青年责任
共同命运

Youth Responsibility
FOR
A Shared Future

Contents

Welcome Letter

Dear delegations, the Dais members would like to express our sincerest welcome for your participation in Beijing International Model United Nations 2018, the committee of International Monetary Fund, in which you will envision the prospect of the global economies in the future.

It is widely acknowledged that International Monetary Fund has been making significant contributions to the development of global economies and currencies. However, after several decades' operation, the voice of doubt arises upon the descending importance of IMF on pushing economies as well as some deficient institutions that hinder the principles of equity and efficiency. Currently, IMF is facing problems like the unevenly distributed quota, the strict funding mechanism after the crisis, etc. Such problems make countries aware and worried about what role IMF will play in the coming UN Agenda 2030 which marks the strive for the shared human destiny.

Other than the internal loopholes, IMF also has to face a young but strong wave of impact to the current monetary system: Virtual Currency, which has vast potential as another stimulus on the economy but also risks so far unidentified behind it. The popular Bitcoin as one of the hot Virtual Currencies has surged unprecedented volumes of deals in just past several years. We cannot neglect the dangers veiled by its prosperity like criminals of money laundry or the poor regulation on speculation. Otherwise, the opportunities will turn into the next foam of economies.

According to the SDGs, we have the goal to pursue decent work and economic growth (SDG8) and reduced inequalities (SDG10). If the Virtual Currency were to be well handled and utilized, it would, with no doubt, recover the fatigued economic growth; Also if current drawbacks inside IMF were to be properly settled, both equality and efficiency could be fulfilled, which will give more opportunities to developing countries and enable IMF to exert more significant influence on global economic affairs.

For those who encounter Model United Nations for the first time, this will definitely be an excellent chance for you to learn about MUN. For those who have had participated in MUNs, you will also have brand-new experiences with Beijing Rules of Procedures (Motion-oriented). Please do not worry too much about the topics since they are designed to cover as little professional knowledge as much.

Should you have any questions, please feel free to contact us. Now the destinies of IMF and Virtual Currency is in your hands.

Dais Members of IMF

BIMUN 2018

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Introduction to the Committee

The International Monetary Fund (IMF) is an international organization which provides a framework for international economic cooperation. It officially came into existence in December 1945, which was first conceived to “avoid a repetition of disastrous economic policies that had contributed to the Great Depression of the 1930s”. After the establishment of Jamaica system in the 1970s including several significant reforms, IMF gradually became what it is today.

Currently, IMF is composed of 189 countries which work together to “foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.” (IMF, 2018a) The leadership of IMF includes three parts. 24 Executive Directors form the Executive Board of IMF, each representing a single country or a group of countries, which together covers all 189 countries. The Board of Governors consists of 2 governors from each member country to elect the executive directors. The Managing Director, currently Christine Lagarde, serves as head of staff, Chairman of the Executive Board and leader of the IMF (IMF, 2018a).

The primary mission of IMF is to ensure the stability of the global economy, which is carried out mainly in three ways: surveillance, lending and capacity development. First, it keeps track of global economy and monitors economic policies of member countries. IMF points risks and provides advice at the global level and for individual countries. Second, it is IMF's core responsibility to lend loans to countries in need based on conditional terms from concessional deals to domestic policies changes. The last major function is to help member countries design and implement economic policies by offering technical assistance and training.

As we all know, current IMF uses the quota-based voting system; Therefore, in this committee, we would like to simulate the real voting mechanism by dividing the votes according to the quota distribution. However, since the U.S. has the de facto veto power which may not be friendly to other delegations, we decide to modify the real voting share used by IMF to reach a balance between the reality and MUN that each delegation could experience the real decision-making while having the relatively equal opportunities to express their voices in this conference. The voting distribution will be released in accompany with the country allocation soon.

Introduction to the Topics

On Dec 18th, 2015, U.S. Congress ultimately approved the IMF Quota, and Governance Reform passed in 2010 which, commented by IMF Managing Director Christine Lagarde, is "a crucial step forward that will strengthen the IMF in its role of supporting global financial stability." The latest reform of IMF mainly focuses on three fields of achievements, namely the redistribution of quota with it is according voting power, the more democratic executive board, and the doubling of IMF fund resources. Indeed, it may be the most remarkable breakthrough since the foundation of IMF for the determination to share more to developing countries as well as actively shoulder more responsibilities on global economic affairs. Besides the internal reforms, IMF also has begun to ponder upon the tendency of future currencies to ensure its management of monetary funds. The emergence and rapid growth of Virtual Currencies including Bitcoins, etc. have raised a new wave of "diggings" and abundant deals, together with the expectation that Virtual Currencies will be the next stimulus to the descending global economy.

However, the prospect of the global economy may not be so optimal as we envision so far. The promising prospect cannot belie the long-lasting risks or loopholes behind growing Virtual Currencies and IMF itself, even after IMF's reform and its focus on Virtual Currencies. For the internal drawbacks of IMF, after the consensus of 2010 Quota and Governance Reform, the quota distribution to new-rising economies has been added 6 percent (Wade, R. H, 2011) and China is ranked the third largest quota donators, but compared with major developed countries like the U.S. (17.46%), Japan (6.48%). However, compared with some European countries (UK 4.24%, France 4.24%, Germany 5.60%, etc.), developing countries (China 6.41%, India 2.76%, Brazil 2.32%, Russia 2.71%, etc.)still have weak voices in global economic affairs to utilise their booming markets (IMF, 2018b). Accordingly, the voting power and access to the financial assistance linked to quota are allocated unevenly despite the 6 percent shift. Such inequality probably comes from the improper quota calculation formula, the amount of basic voting power, the ratio of majorities, etc. which will be articulated in the later sections. Moreover, the governance still cannot be regarded as effective concerning the loopholes of funding and weakened importance of IMF with the rise of regional economic organs like AIIB, etc. which are also urgent to be tackled.

Figure 1. Virtual Currency and Financial Security (J. Angelo Racoma, 2013)

Virtual Currency is even a more complicated issue for it is so far operated in the extremely free market with clear rules and supervision. The allure of such freedom accompanies the high potential risks to the financial stabilities. So far there are little official and explicit regulations worldwide to specify the criteria and form the guidance to lead a healthy development of Virtual Currencies, severely resulting in the vague boundaries of Virtual Currencies, the limited range of usage, the risk of its feature of decentralization, inadequate regulation and potential cybercriminals like tax evasion, money laundering, etc. A framework ensuring the operation of Virtual Currency is urged to be established to firstly standardise current exchange and barter mechanisms, and secondly further exert the power of such future currencies to better serve the recovery of global economy.

Actually, for such problems mentioned above, actions have been taken for the past several decades by IMF, but with limited effects. IMF has launched 13 General Quota Checks before 2010 (IMF, 2018b) to evaluate and reallocate nation quota percentage from time to time, trying to seek for the balance between countries and fit the latest economic situations. However, as we can see today, such goals have not been totally achieved. In addition, in Jan 2016, IMF released an official report naming "Virtual Currency and Beyond: Initial Considerations" to officially discuss the definition of this currency and analyse the pros and cons of it for the first time. However, the report just stops at the analytical level with several important suggestions, giving few substantive solutions to provide a plan of how to regulate Virtual Currency. Therefore, despite the contributions which have achieved some silver linings, there is still a long way to go.

Some of the recently released United Nations Sustainable Development Goals also reiterate the significance of economic growth and equal opportunities. The SDG8 mentions the decent work and economic growth, which is closely linked to the governance of IMF and its management on Virtual Currency, which, if properly handled, will boost another round of global economic growth; the SDG10 from another perspective focuses on how to reduce the discrepancies between persons and countries, which greatly accord with the unequal quota distribution in IMF. Thus, the solution of these two issues will contribute a lot to the achievement of SDG17.

Such problems also have worried economists, scholars and state decision-makers that they have difficulty making and assessing corresponding policies. However, fortunately, several ideas have come out trying to tackle the loopholes. In the following part of this section, we would like to briefly give an introduction to several possible solutions which may not take effects ultimately but at least worth discussing. Detailed analysis of solutions will be provided in the later sections.

The methods for inequality and low efficiency of IMF mainly consist reforms of several quota-related and voting power mechanisms. Some innovative thoughts may give us some directions of reform, including adding more variables into the quota formula and modifying the weights allocation among variables, raising the ratio of basic voting rights, decreasing the absolute majority from 85% to a lower percent, and even establishing a double-track voting system (both quota-based form and one-member-one-vote form) deciding issues of different priorities. Other problems of low efficiency in governance could be tackled by enhancement of cooperation between regional organs and global ones, funding from multiple channels, and emergency mechanism after financial crises.

As for the framework of Virtual Currency, we also provide several possible solutions to tackle the risks. A comprehensive assessment on Virtual Currency may be feasible to decide whether such form of currency should be forbidden, utilized with limited range or utilized worldwide; Although the decentralization is the most prominent characteristics of Virtual Currency, the recentralization is probably still one of the most effective methods to perfect the management; the principles of VC deals like the exchange rate, the price and warranties, etc. should be affirmed in the term of worldwide treaties as the baseline of Virtual Currency operation; Moreover, the anti-crime methods should be implemented to strike the currency crimes in order to prevent economic turbulence triggered by them.

Nevertheless, other than the solutions mentioned in this Background Guide, we highly encourage all delegates to utilise your intelligence and wisdom to come up with innovative ideas to better tackle the drawbacks inside IMF and settle the framework of Virtual Currency. Current solutions, more or less, have some loopholes, which means that there are better ones to deal with current problems. Besides, please bear in mind that innovation is not equal to “Castle in the air”, meaning that any plans, strategies or frameworks should be meticulously pondered over for their feasibility and efficiency. Dais members sincerely appreciate and look forward to innovative and feasible thoughts from you.

Key Terms

Special Drawing Rights

The Special Drawing Rights is the unit of account used by the IMF and represents a claim to currency held and used only by IMF member countries. Generally, the IMF defines and allocates the SDR as an additional foreign-exchange reserve asset rather than a currency per se. They must be exchanged for currency before use. In 1969, the SDR was created to deal with a shortage of gold and the US dollar which were two preferred foreign-exchange reserve assets under the Bretton Woods system. Currently, it is pegged with the US dollar, Euro, Chinese yuan, Japanese yen and pound sterling (IMF, 2018a).

Voting power: Basic votes and additional votes

Voting power in the IMF is based on a quota system. The voting power can be divided into basic votes and additional votes. Each member country has an equal number of basic votes which altogether constitute 2.1% of the total votes, one additional vote requires for each Special Drawing Right (SDR) of 100,000 of a member country's quota. For example, the US has around 82,994 million of SDRs, so its additional votes' percentage of total votes is about 17.6%, and the overall voting share is around 16.7%. Though the basic vote slightly favours small countries (because they enjoy the same basic voting power as the bigger ones), such bias is outweighed by additional votes (IMF, 2018a). Changes in the voting shares require the consent of a supermajority as 85% of the voting power (the US alone has 16.7% of the voting power).

Virtual Currency

Virtual Currencies (VCs) are digital representations of value issued by private transacting parties. Only when all transacting parties agree to use them, can VCs be obtained, stored, accessed, transacted electronically and converted into real-world currencies. The concept of VCs covers a wide range of "currencies," such as airline miles and Bitcoin, and falls within the broad category of different digital currencies. The figure below (Dong He et al., 2016) will show you how the broad conception of Digital Currency is categorised. However, the concept of VC is rapidly changing in the modern era, and the future landscape of VC is rather difficult to predict.

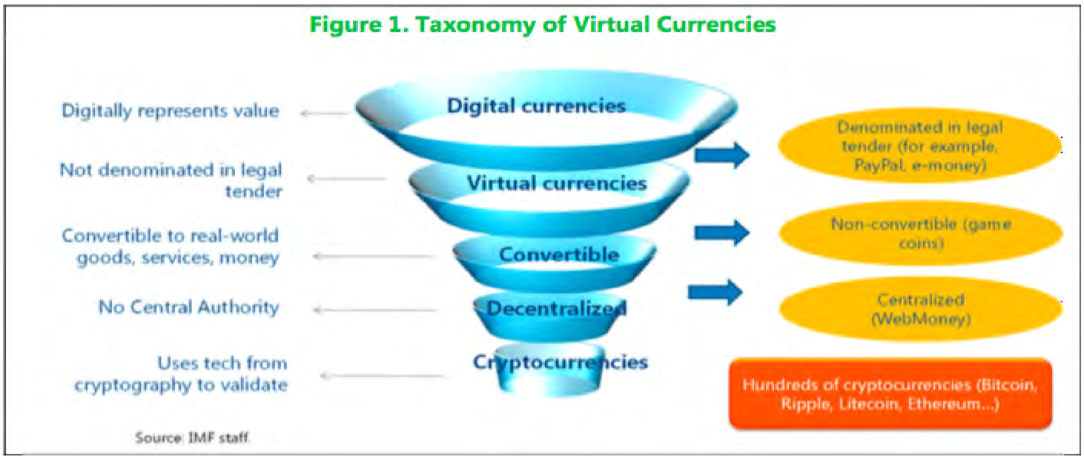

Figure 2. Taxonomy of Virtual Currency (Dong He et al., 2016)

Cryptocurrency

A cryptocurrency is a digital asset which adopts cryptography to function as a medium of exchange, to secure and to validate transactions. As a subset of virtual currency, it is also decentralised. Created in 2009, Bitcoin is the first cryptocurrency. Cryptocurrency is not truly anonymous for its transactions are publicly recorded and stored on individual private computers. Though the record cannot be directly traced back to individuals in the real world, their user "addresses" are known to all, which assures the transparency of cryptocurrency.

Blockchain

Blockchain was invented by Satoshi Nakamoto in 2008 for use in the cryptocurrency bitcoin. A blockchain is a list of records, also known as blocks, which is continuously growing. These records are linked and secured by cryptography, which basically is coded writing or message. The structure of a blockchain is fairly simple; each block typically contains a cryptographic hash of the previous block, a timestamp and transaction data; Therefore, data contained in a blockchain cannot be modified by design. Blockchains are usually managed by a peer-to-peer network, and they are potentially suitable for the recording of transaction events, medical records, and other records management activities such as documenting provenance, ID management or voting.

In the field of Virtual Currency, the blockchain is considered as the technology with a promising future. Each deal of Virtual Currencies will generate a new block which records the amount of deal and the ID, etc. While the block is created, it needs the approval of 51% (Brown, Steven David, 2016) of all the nodes in the network. Otherwise this record of deals cannot be recognised. In the reference section we will provide several materials for you to better understand the mechanism of Blockchain if you are interested.

Distributed ledgers

A centralised system, which means the currency is issued and administrated by a central authority (usually a central bank), has a master ledger to keep track of all transactions. However, a distributed ledger system has multiple copies of the master ledger on many individual private entities across the financial system network. The ledger records individual transactions which are validated and secured by computing technologies and cryptography, such as the blockchain technology, which avoids manipulation from a single entity or need of a central party. The concept of the distributed ledger is the underlying foundation of decentralised virtual currencies.

Topic A: IMF Quota and Governance Reform

Past Actions

In this section, we would like to provide you with the history of changes in the quota distribution for you to better understand how quota is operated and how its distributions are changed to become what we see today.

For the members of IMF, each country receives an initial quota when it firstly joins the IMF; the quota is usually in the same range as the quotas of existing members of close economic size and similar characteristics. It is closely related to countries' financial and organizational relationships with the IMF, including subscriptions, voting power and access to financing. Each country's quota is generated by a quota formula adopted by the IMF. The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP—based on market exchange rates (weight of 60 percent) and PPP exchange rates (40 percent). The formula also uses a "compression factor" that reduces the dispersion in calculated quota shares across members (IMF, 2017).

Quotas are not counted in the form of currency of any country but are denominated in Special Drawing Rights (SDRs), the IMF's unit of account. It was created by IMF itself in 1969, used as a supplementary international reserve asset. The value of the SDR is based on a basket of five major currencies—the US dollar, the euro, the Chinese RMB, the Japanese yen, and the British pound sterling. By September 2017, a total of 204.2 billion SDRs (equivalent to approximately $291 billion) had been created and distributed to member countries (IMF, 2017).

The IMF's Board of Governors conducts the process of general quota reviews every five years, in most cases; any changes in quotas should be proposed during this time. Below we provide a chart of all historical quota reviews and overall quota increase. So far IMF has gone through fifteen Quota Checks to ensure whether the quota distribution is in accordance to the country's economic strength. Increases in quotas usually reflect changes in member countries' relative positions in the world economy (IMF, 2017).

General Quota Reviews		
Quota Review	Resolution Adopted	Overall Quota Increase (percent)
First Quinquennial	No increase proposed	---
Second Quinquennial	No increase proposed	---
1958/59[1]	February and April 1959	60.7
Third Quinquennial	No increase proposed	---
Fourth Quinquennial	March 1965	30.7
Fifth General	February 1970	35.4
Sixth General	March 1976	33.6
Seventh General	December 1978	50.9
Eighth General	March 1983	47.5
Ninth General	June 1990	50.0
Tenth General	No increase proposed	---
Eleventh General	January 1998	45.0
Twelfth General	No increase proposed	---
Thirteenth General	No increase proposed	---
Fourteenth General	December 2010	100.0

Table 1. General Quota Reviews in history (IMF, 2017)

Developing countries have always been active in calling for reformations on quotas, namely on the quota formula; the way quotas determine countries' votes in the IMF, which is basic votes plus one additional vote for each SDR100, 000 of quota; how increased overall quotas should be divided among countries; etc.

The most recent reform on quotas took place in 2010, during which the 14th General Review of Quotas was released. It not only doubled quotas from approximately SDR238.5 billion to approximately SDR 477 billion but also shifted more than 6 percent of quotas to dynamic emerging market and developing countries. China became the third largest member country in the IMF after quota shares were significantly realigned and 4 out of 10 largest shareholders in the IMF are now EMDCs (Brazil, China, Russia, etc.). Quotas of member countries that possess traditionally strong economies such as European countries, the United States and Saudi Arabia are diminished, although in most cases by limited amounts of less than half a percent (Jeff Tyson, 2016). The quotas of the least-developed countries remain, in actuality, unchanged, although the IMF claimed the fact that it had preserved the quota and voting share of the poorest member countries as an improvement to its quota system. Another notable change of system during this reform is related to the selection process for executive directors on the IMF's board. Before the reform, the member countries with the five largest quotas each directly appoint an executive director to the board, whereas after the reform, all positions are to be determined by election.

After the 2008 worldwide economic crisis, the IMF had also made much changes and improvements to better tackle problems that emerged in a post-crisis world economy. It revamped its lending toolkit, introducing more flexibility in its lending instruments, along with introducing new instruments such as the Flexible Credit Line in order to make it more responsive to members' needs. It also significantly increased non-concessional lending; before the 08 crisis, its amount is almost nil, while after the crisis, it surged to around $400 billion, which helped to strengthen the global financial safety net (Ruben Lamdany andSanjay Dhar, 2014). Although its lending mechanism has several problems that will be mentioned later, IMF indeed has been making progress in the past several decades.

Problems to be Solved

Quota Distribution

The quota system is essential to the IMF because it determines the maximum subscription each member country must pay, the voting power one enjoys and the number of financial resources one can access. Quota distribution is intended to reflect the relative size of a country's economy in the world. The quota system is always at the heart of the IMF reforms with many controversies. Many developing countries and emerging markets may consider the current quota formula and distribution as unequal to them with the rising of their economic strength; while for some typical developed countries, they may consider that the current distribution is quite objective to reflect countries' economies despite some minor loopholes. In addition, one of the difficulties of possible reforms is that the change in quota system requires a supermajority of 85% of the votes (Huang, 2017).

The loopholes of quota formula

The Calculated Quota Share (CQS) mainly consists four parts: GDP, openness, variability and reserves. First, GDP factor is a blend of 60% of GDP converted at market rates and 40% converted at PPP exchange rates averaged over a three-year period (IMF, 2017). The problem with calculating based on market rates is its volatility. It puts developing countries at a disadvantage compared with developed countries which have already established more stable markets.

Second, openness refers to the annual average of the sum of current payments and current receipts (goods, services, income, and transfers) for a five-year period. However, to access more quota, member countries are more likely to impose export subsidies and import tariffs, which leads to the growth of protectionism and unfair competition. This will also ignore some rather closed economies which enjoy far more benefits from the global market than what they contribute. It exacerbates the unfair situation in the global market.

Third, though the IMF stated a new quota formula under 2008 reform, which seems more transparent, most member countries are still unable to calculate the exact number of quota based on their statistics. The calculation is carried out solely by the IMF. What's more, in the interests of most developing countries, other factors should be added into consideration: the number of population, the urgency of acquiring loans and so on. These elements that specially cater to the interest of developing countries may help the IMF better secure the international cooperation and stable economic environment.

The imbalance of the voting distribution

The voting share is determined by the quota system, which combines basic votes (which equals to 2% of the total votes) and additional votes. The quota system decides how much each member country should pay for a subscription. All subscription from member countries will be converted into Special Drawing Rights, a unit of account used by the IMF. Every 100,000 SDR will be counted as one additional vote. For the basic voting rights which is the major voting share for moderate or least developing countries, the small percentage obviously cannot reveal their economic wills in the decisions; for the additional voting rights, since voting is closely related to the quota calculated by the formula, so developing countries again have little voting rights.

Now the United States has the largest share of votes that constitute 16.7% of total votes. Reforms to change the voting shares requires a supermajority of 85%, which means the U.S. alone has the power to veto possible reforms. Any policy that hurts US interests may not get passed if the U.S. is not willing to. Actually, because of the veto power in IMF, IMF itself has long been accused of being under control of U.S. to realise its wills instead of seeking for the overall human destinies. Besides, the mechanism of supermajority is also being doubted, and there are voices that whether the percentages of supermajority could be reduced with unbalanced voting share distribution.

With more economies of developing countries emerging and thriving, only when their status is recognised and valued, can a stable, cooperative and sustainable global market be achieved. However, under the current situation where developed countries disproportionally take more shares, the contribution from developing countries is underestimated. Their requirements are less likely to be met or taken into serious consideration. The chance to voice their opinions in the decision-making process also appears to be limited.

Loopholes in Funding

One of the most significant roles of IMF in the global economic affairs is to help keep the financial stability and provide financial assistance as the lender of last resort to those who are suffering from the financial crises or national economic collapse like severe hyperinflation and debts, etc. Nevertheless, the funding currently has two problems that may gradually weaken the reputation of IMF concerning its efficiency in the funding of countries in crises.

One problem refers to the insufficiency of financial resources, which includes other than money, shares, bonds, reserves and other sorts of properties that could be utilised to have the capability to provide financial assistance when in urgency. Currently, IMF has mainly four ways to gather money to on the one hand fill up daily expenses and on the other hand store it as the strategic reserves to provide assistance or loans to countries in help: Quota in the form of SDR from members (Mainly), Operation income, Donations and Others. However, such channels of funding source still cannot fit the amount of assistance to the crises. The major reason is that, after the financial crisis, developed countries as the major donors of IMF can no longer provide as many donations as before, while developing countries are still requesting loans from IMF. Under the current quota distribution which limits the rising economies to donate more, the contradiction between supply and demand soon will lead to the insufficiency of overall funding reserve.

Another problem derived from current quota distribution is the funding quota. As we all know, the quota distribution not only links to voting power, but also is in accordance with the amount of assistance one country can receive. Developing countries have limited quotas, but are of greater urgency to get funding from IMF. Therefore, the current quota distribution cannot satisfy the demand of developing countries.

Moreover, the preconditions of funding are considered unreasonable and improper, decreasing the efficiency of funding. What IMF did after Argentina Debt Crisis is one typical case that illustrates the inefficiency of assistance. After the Argentina Crisis, the government officially applied for the loans from IMF to go through the fiscal shortage. IMF agreed on this application but added the precondition of immediate tight fiscal policy. However, such policy may only lead to the rising of unemployment and greater turbulence since the tight fiscal policy will keep decreasing the domestic demand and do no good to recovery. The similar case appears in the Greek Sovereign Debt Crisis in which IMF imposed an unrealistic demand for the structural reform of economy right away. These cases are not the only two examples for IMF to impose such strict demands before lending money. Maybe IMF has goodwills, but it fails to keep balance well between the short-term efficiency to solve the crisis and long-term instructions to fully recover the economy; or as some critics pointed out that IMF is actually under the control of certain countries or groups to deliberately set some unrealistic preconditions to make sufferers follow certain instructions, which needs to be further discussed.

Declining Influence and Rise of Regional Organs

As the organisation founded after WWII with Bretton Wood meeting, and under the principles of Jamaica System to re-establish the global economic order together with the World Bank, International Monetary Fund has been successfully shouldered its responsibilities to keep financial and monetary stability as well as assistance to crises. However, with the rise of some regional financial entities, some functions of IMF are to some degrees replaced or “diluted”, which hence squeezes out its influence on some regional economic affairs. Asia has now the recent establishment of Asian Infrastructure Investment Bank, and the BRICS New Development Bank, plus the Belt and Road Initiative and the existing Asian Development Bank; Europe has the increasingly influential European Central Bank and European Bank for Reconstruction and Development; Africa has the African Development Bank, so on so forth.

Two reasons mainly attribute to the decline of influence. The first refers to IMF quota inequality and harsh conditions of loans as mentioned before. Current quota distribution can no longer satisfy some rapidly developing countries to exert their voices in the decision making, which shifts their focus to regional organs instead of continuing following IMF to fit their economic status; the harsh conditions also make countries doubt the capability and credibility of IMF to solve the crises, and turn to regional organs to seek for the guarantee of such assistance when in crisis.

The second reason comes that in the past several decades, regional organs are de facto playing more important roles in the regional economic affairs. Some functions of IMF can also be realised in regional institutes, like in the Greek Crisis, it was the European Central Bank instead of IMF to provide the major amount of money to help Greece go through the fiscal shortage. To some degrees, regional organs can do better than IMF because they are more familiar with countries in certain regions. Thus, the problem faced by IMF is how to deal with the relations between itself and regional economic organs to better handle economic affairs as well as maintaining its global credibility and influence. Otherwise, IMF will probably be a shell organ.

Possible Solutions

Reform of Quota Mechanism

The latest IMF Quota and Governance Reform has made huge progress in the quota shift from developed countries to developing countries, while for the problems mentioned above about the quota distribution, several methods can further push forward the next step of reform to better exert its influence to the global economic affairs.

First of all, the quota calculation formula could make some changes. The current variables, namely the average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent) is a not bad one, but still has room to be improved. Some other elements, like demography, currency liquidity, etc. to make the formula more comprehensive to meet the goal of revealing the real and objective picture of one economy.

Secondly, the weight of variables shall also be altered. It is once advocated that in the GDP, the weight of GDP based on market exchange rates (weight of 60 percent) and PPP exchange rates (40 percent) cannot indicate the economic power since the former one is influenced by exchanged rate. Therefore, it is better to alter the weight of GDP based on PPP to half or 60% to better reveal the real picture of one economy. Some other weights or variables are also worth consideration to ensure that they are still reflecting the economy of countries.

Moreover, it is time for the Quota Formula Review Group to judge again the effectiveness of the formula and make the assessment. It is also reasonable to include members from the emerging markets as the special group members to better express the requests and expectations from such economies. Furthermore, the number and allocation of members need to be further discussed.

One more thing that cannot be neglected is the supervision during the process of assessment, since quota is the most significant index to many relevant IMF affairs. One special third-party supervision group may be useful to confirm the data accuracy and prevent the potential corruption during the assessment.

Reform of Voting Rights

The voting rights and quota distribution are closely connected. However, other than the potential measures to improper quota distribution, there are some distinctive methods for a fairer voting mechanism to ensure the power of decision-making of every member state and prevent certain countries to acquire dominant status in the decision-making process.

The first is the increase of basic voting rights, which currently account for only about 2% of the overall voting rights. With a supermajority of 85% to make decisions, 2% is too little to make any substantial changes in the voting. In addition, the basic voting rights are significant for those who lack money since they are unable to obtain extra voting rights. For such countries, their wills may probably fail to be represented in the IMF, and they will consequently lose their confidence in IMF. Therefore, the increase in basic voting power will to some degree make sure that votes from developing countries can affect the final decision. For the last several decades, the total amount of basic voting rights has once surged to 15%, so it is time to consider how much basic voting rights can be added.

The second method comes to the linkage between quota and voting power. The current "100K SDR for one more voting right" is heavily depended on the quota distribution, which can be altered to set a formula to ensure the voting power to be calculated more objectively. When money is the major driving force of the voting power, it is quite unfair for some least developing countries to gain many voting rights. Similar to the quota formula, it may be proper to form a Voting-right Formula Review Group to include some variables like the stock of SDRs, the regional influences, etc. to make the ultimate formula persuasive.

Another way to promote the relative equality of voting especially the prevention of veto power may be to decline the percentage of a supermajority of 85%. It is reasonable to set such a high percentage for deciding significant issues, but the veto rights of certain countries cannot be ignored. In United Nations, the absolute majority refers to the two-thirds majority. Therefore, the so-called supermajority could be decreased to make the voting procedure more efficient. However, currently, the decision to decrease the percentage of supermajority just needs the supermajority to pass, which will be rejected by certain countries. Therefore, there is still a long way to go before such core reform of voting mechanism is launched.

Besides, a double-track voting system could be implemented, which, remains the current voting based on the quota distribution as well as the classic "One country one vote" voting methods. The latter one has the advantage that under such voting methods, each member states are represented equally. The combination of the two methods can be used to vote for issues at different levels of importance. For example, the changing of quota formula could require the pass of both voting systems, while some minor issues could only require one. The double-track voting system to some extents retains the current quota-based system to encourage countries to pay for their quota in time; in the meantime, it perfects the voting mechanism to make it flexible and fairer.

Solutions to Inefficiency of Funding

The inefficiency of funding is one of the most criticised issues of IMF. To solve this problem, it is usually suggested that IMF open more financing channels and gain more funding from various international and regional organizations. It may be useful for IMF to establish the mutual funding channels to ensure the funding for the crises could be enough to utilise. Also, the proportion of funding the developing countries undertake, especially that of the emerging market countries, should be increased, since the supply-demand relation in IMF funding has already changed: In the past, the developed countries were the main donor and the developing countries are the main receivers, which forms the relative balance of funding mechanism since the former one owns money and the latter one owns demand.

Nevertheless, after the 2008 financial crisis, several badly-stricken developed countries became receivers and a number of rising developing countries took up the places as donors. Some subtle shift of roles gradually alters the relationship inside this supply and demand mechanism. The new balance comes that, the supply side consists of not only many developed countries which didn't suffer from any vital financial collapse, but also the emerging economic powers which are willing to have more say in IMF with the will of increasing their quota shares. The demand side, other than those who are always in poor economic performance, consists of several developed countries that once enjoy prosperity but are harmed badly by the crises. Such shift of funding mechanism with no doubt requires the support of a fairer and more equal quota distribution to ensure the funding could be truly utilised.

Another widely-criticised issue of IMF is the precondition of funding it attaches to loans before releasing them to receiving countries. Many of these preconditions are considered t for actual implementation and have already done more harm than good in several cases. It is easy to understand the urgency of IMF to recover the economies in crisis, but whether the radical reforms are efficient should be discussed. Therefore, it may be good to encourage that IMF should revise its preconditions facing the new global economic environment. Other suggestions include IMF inviting the third party to evaluate and estimate the receiving country' s economic conditions before releasing the loan, as well as split the loan into several phases, each with different amounts and rules of application in accordance with different economic status.

Methods to Tackle Declining Influence

There are indeed several approaches to solving the problem of declining influence of the IMF, each bearing their distinct advantages and disadvantages. The first solution may be to immediately initiate the reform of the IMF's current quota system. This solution will likely include the elimination of IMF quota inequality by rewriting the quota formula, adjusting the voting system, and changing the role of SDR in the post-reform quota system to satisfy developing countries' needs. It seems that such a solution can solve the problem thoroughly and, judging from a long-term perspective, it may be the only way out. However, this solution also means fundamental changes on some core issues of IMF itself, since the developed countries who have been providing major funding to the IMF will no longer hold dominant positions. It is thus reasonable to anticipate the strong objection and resistance from the developed countries when adopting this solution; clearly much negotiation and discussion is needed among delegates if they make up their minds to head down this path.

Obviously, there are also other options available at this moment, such as lifting off conditions of loans when handing them out to countries in desperate need of them, or at least, imposing conditions less harsh compared with the past. Such an act will almost certainly earn the favour of developing countries, especially the least-developed countries, while on the other hand, it may also draw harsh criticisms and dissatisfaction from developed countries, the up-to-now main contributors to IMF's funding, for they may argue that such an act is a squander of IMF resources. Further consequences may also include developed countries cutting down their funding to the IMF, creating an even larger gap between demand and supply in IMF funding, and eventually worsening the already deteriorating condition of IMF's international influence and reputation.

Facing rising regional organizations, IMF may try to establish a tighter relationship with them by strengthening the coordination between the regional organization and itself as well. It may also consider taking up a more instructional position in dealing with regional economic problems, which means providing consultation and instruction to regional organizations from a global perspective instead of engaging in direct competition with them.

Topic B: Virtual Currency and Financial Security

Past Actions

As mentioned in the Key Terms section, the overall Virtual Currency in the wide sense includes various forms of currencies that fit its category. We would like to talk about different Virtual Currencies like the game coins and Bitcoins, etc. However, to specify our discussion, we will put the main focus on the narrow sense of Virtual Currency which falls into the Cryptocurrencies like Bitcoin, Ripple, Lite coin, etc. Actually, the age of Virtual Currency is just about ten years old, and in this section, we would like to provide you with the history of this ten years to see why and how Virtual Currency emerges to become one of the most popular financial assets in the world.

Before we get started, we would like first to introduce you how one certain currency can be justified and authorised by people to be used as the universal equivalent to illustrate the reason behind Virtual Currency's popularity. The emergence of currency, or the goods functioning as currency, can date back to several thousand years ago, when people used their own goods for exchange, like using apples to get pears or lamb for steaks. Since the barter with goods was inefficient for the hardness to carry every time, people began to seek for something easy to carry to replace the direct barter with goods. Then the shells and stones came into usage and were regarded as the universal equivalent becoming the earliest form of currency. So far, the subject of universal equivalent altered from shells to precious metals like gold and silver, and then to the paper currencies as we use today. The paper currency is a bit different from the former equivalents since in the past the equivalent like gold are utilised based on their internal value, whereas the numbers on the paper have not. Therefore, the paper currencies are what we call “Legal Tender”, or fiat currency.

Generally, the recognition of one currency requires the core condition: the belief that it is worth a stable value, together with the access of acquirement, the recognition from market and government, etc. The stable value promises the function of trade in the future; the access of acquirement enables people to acquire the currency without much difficulty to exchange for goods; the recognition from market refers that people hold optimistic opinions towards it, believing that it could be used in daily deals; lastly, the approval of government permits the authorization that such currency could be legally used in the certain country.

When we again look at the rise of Virtual Currency, or just pick up one typical example Bitcoin, we will find how it became prevalent. It all started in 2009 when Dorian S. Nakamoto, the creator of Bitcoin devised an open-source software together with the P2P network to create the first platform of Bitcoin trade (Satoshi Nakamoto, 2008). The total amount of Bitcoin set by Nakamoto is 21 million coins; the overall platform is actually a decentralised system in which the Bitcoin needs to be dug by diggers and used for trade under the encryption of Blockchain, enabling a lot of opportunities, whether good or bad.

Here we can see the advantages of Bitcoin and Virtual Currencies: the limited amount of coins promises the relatively stable value of coins with no risk of inflation; anyone can buy and sell coins on a certain platform, with quite easy access; the decentralization permits people to get around the permission or supervision from the government to develop infinite chances, whether to invest or run criminals as well (Taylor C. Nelms et al., 2017). Actually the value of Bitcoin is not given by government because of decentralisation, but by the confidence of such P2P form of trade and the development of the Blockchain, which guarantees the security during the exchange.

For the first several months, since few people took part in the trade and digging of Bitcoins, the value of Bitcoins remained even below 14 cents. However, when more and more people joined this "currency game", the demand was rapidly surging and quickly excessed the velocity of Bitcoin digging, resulting in the soaring price, although with several collapses, till now. For the past ten years, the price of one Bitcoin has once come to 1242 dollars, close to the price of gold, attracting more investors, speculators as well as criminals to jointly make Bitcoin one of the most popular conceptions of future currency. In the meantime, other forms of Virtual Currencies also appear in the market like Lite coins and Ripples, etc., with the permission of more countries, together generate the promising prospect of this future currency.

While with no doubt Virtual Currency will be the hot topic for the next several decades, problems appear in this booming industry. The vague definition, several risks derived from decentralisation, and poor regulation and supervision towards Virtual Currency give its bright future some sorts of shadow, which will be discussed in the later section. Some countries for the sake of cautiousness and the prevention of financial instability, have begun to restrict the free trade of Virtual Currencies. Typically, People's Bank of China last year officially categorise the Virtual Currency as illegal and urged to halt any relevant trade. The price of Virtual Currencies like Bitcoin at the beginning of 2018 starts to face another round of continuous decrease, which seems to prove its potential risks. Some other countries like Finland, Japan, etc., however, legalise the Virtual Currency and consider it as one alternative payment method. Moreover, IMF recently released the report of "Virtual Currency and Beyond" to analyse the future of such future currency. Many more actions have also been done or are planned to be done to tackle the problems during the Virtual Currency operation.

As we can see, after the surge of Virtual Currency for almost ten years, right now government, investors and even common people begin to ponder on the loopholes behind Virtual Currency. Truly, the freedom given by Virtual Currency and the security given by Blockchain Technology provide infinite possibilities, but without several methods and regulations, the prosperity may ultimately become foams of the economy. The problem here is how to keep the balance of freedom and regulation: to on the one side exert the power of Virtual Currencies to boost economies, and on the other side impose proper regulations to promise such relatively newly-born conception will not harm current financial stability.

Problems to be Solved

Vague Definition of Virtual Currency

The vague definitions of Virtual Currency could bring many related problems like the inefficiency of supervision and regulation. The following three parts will provide you with what vague definition Virtual Currency has and how it is formed.

The broad category

Virtual Currency falls in the broad category of digital currency which adopts a digital payment mechanism. Within the wide range, decentralisation and convertibility are two key elements to classify each subset of the broad category. Moreover, there is a hot debate on whether the Virtual Currency could be a kind of currency or just a form of financial assets as most countries adopt. The reason is that since one country can only have one official currency, or fiat currency, if Virtual currencies become the official currency, such country needs to abandon the current one, which is too radical to enact. However, the debate is still going, giving us the idea that maybe someday in the future, Virtual Currencies will officially become currencies. All in all, the rich content of Virtual Currency is exactly the reason why it is so hard to provide a specific and detailed definition, which may cause trouble when making policies in the international society.

The evolving technology

With technology rapidly evolving, the concept of Virtual Currency is always changing. It is almost impossible to predict the further development of virtual currencies or to identify long-term relevant policies in each country. Virtual Currency is mainly supported by cryptography and network computing, like blockchain technologies. New advances in this field are always emerging. Take the blockchain technology as an example. Its creation provides a new, decentralised way to solve the double spending problem, the duplication or falsification of a digital account. It requires computation work as the cryptographic protocol to validate transactions without a trusted third party. The second generation of blockchain technology, emerged in 2014, enables the storage of "persistent digital ID and persona". Now, researchers around the globe are studying the further development of Virtual Currency, which is still at an early stage. The evolving technology indeed makes it impossible to clearly depict the landscape of Virtual Currency.

The legitimacy

Since Virtual Currency is not issued by a central authority, the legitimacy is given by countries who support it. Several countries clearly state the illegality of its transaction. For example, bitcoin is banned, to various degrees, in countries like Russia, China, etc. While some other countries like Finland welcome the Virtual Currency, the legal status of Virtual Currency is changing from country to country. Therefore, it is currently hard to bring forward a universally accepted legitimacy of Virtual Currency.

Risks of Decentralisation

Decentralization is one of the most impressive features of Virtual Currency since it enables much convenience for trades like easy access, etc. However, risks behind decentralisation should be warned and alerted to guarantee that the participants in the online deals could protect their proper rights. The risks of decentralisation include but are not limited to the four problems listed below, and we encourage delegations to think comprehensively.

The problems of Blockchain

For some well-known Virtual Currencies, like Bitcoin, the technology of Blockchain is considered as one of the most promising techs in the future for it solves the issue of credibility from people to people, which ensures the safe trade of Virtual Currencies.

Currently, the Blockchain is criticised for several potential problems like the low efficiency, the waste of resources, and the potential hackings. Firstly, after we get to know how Blockchain operates, we may find out that it costs quite a long time for all the nodes to update the record of only one deal. As we all know, one deal will always generate one more block, and the confirmation of one block requires 51% of all nodes' approval, but with huge number of nodes existing, it is quite difficult to quickly go through this process, resulting in the low efficiencies of Virtual Currencies deals. Currently, the Blockchain can only support seven deals per second, far less than the demand of deals. As the technology to support the good operation of Virtual Currencies, if Blockchain remains such velocity to recognise records, when dealing with big data, how can we trust that our deals are made with no delay and our time are not wasted by just the bargain process?

Another problem concerning Blockchain is the security issue (Owen, Taylor, 2015). As long as the programs are written by men, there must be loopholes to be hacked. The well-known hacking issue in 2011 on Mt.Gox is so far the largest scandal for Bitcoin. Indeed, currently the mechanism of Blockchain to confirm one deal is to make sure that 51% of nodes agree to add the record of the deal and each deal is well cyphered, which the hackers need to pay more than receive if they choose to hack. However, we are not sure in the future whether the attack on the Blockchain will be efficient and profitable or not, plus since the overall network of Blockchain is maintained and operated by all the nodes connected, with maybe no awareness to focus on the hacking prevention. Therefore, the market and participants may be too confident on the prospect of Blockchain.

Price fluctuations

The price fluctuations may be what investors care about most since for the last decade, the price of Virtual Currencies, take Bitcoin as the instance, has gone through several drastic ups and downs. From the once 19000 dollars per coin to just 2500 dollars per coin in just half a year (CCN, 2018), the Bitcoin is like taking the rollercoasters to make its investors again and again lose their confidence after the price collapse and rebuild it when the price rises. After so many exciting moments, it is hard to say whether investors are tired of playing the highly uncertain game since right now the Virtual Currency functions like reserves to be invested than the paper currencies we use every day.

Actually, the Virtual Currencies market right now is no difference from the housing or stock market where people buy and sell houses or stock shares to make money or to reserve to keep value. The price of such investments is highly depended on the confidence of their prospect. The price of stock of one company depends on the expected performance of this company; the price of one apartment on the expectations of continuously rising prices; and for Virtual Currency, the confidence, as mentioned before, is the overall confidence on Virtual Currencies, which is divided into the Blockchain system that could create the collective credibility mechanism to prevent the systemic collapse of centralized financial institutes and the overall recognition of Bitcoin itself.

Therefore, as we view all the major collapses of Bitcoin, we will find that each decline in prices are closely related to the doubt and suspicion of Blockchain and Bitcoin itself; either after the Mt.Gox scandal, or after the claim from China that Bitcoin is illegal in China, did the price of Bitcoin face sharp decline. It may be common since we have seen so many cases in the stock market, but the questions come when there are no range settings of price fluctuations, investors including many common people, will lose almost all that they have. The stock market in certain countries like Mainland of China is operating with the price limitations, which will effectively prevent investors from the entire loss of money and deliberate speculation, since the price of stock will go up and down within the given range; however, the price of Bitcoin has no limitations, meaning that if the price goes down, no one can ensure when it will reach the bottom. Some people, in order to earn money quickly, have invested almost their assets to exchange Bitcoins; when the price of Bitcoin sharply decreases with no limits, the Bitcoins in their hands is worth little value. In other words, they lose almost all that they have.

One thing to mention is that recently there are some voices claiming that norm of "decentralisation", which doesn't refer to the entire decentralised system, but a system with limited numbers of centres to operate together. Such voices are considered as the tendency for Blockchain and overall Virtual Currency to update their framework in the future. However, such ideas are still in the cradle, and it may require further technology to support, but it may provide you with some directions and do more research on it.

Worries from Entity Economy

Alternative payment method

The reason why many countries are cautious or even refuse to recognise the Virtual Currencies is that someday in the future, Bitcoin or some other forms of Virtual Currency would become so influential that it will squeeze out some of the usages of fiat currencies. Imagine a day when people buy commodities with Bitcoins instead of cash or even Alipay in certain exchange rate to fiat currency. Since the Virtual Currencies are operated without any centralised financial institutes, the widespread of Virtual Currencies like Bitcoin may probably have the substitution effect that decreases the liquidity of real currencies, which weakens the capabilities of central banks to use currency policies to manipulate the financial stability. Although most countries right now regard Virtual Currency as the financial asset but not a payment system, it is still worth attention to notice the potential harm behind it.

Another risk of Virtual Currency as an alternative payment system concerns the unstable price of Virtual Currencies. With continuous fluctuations, people using VC to buy commodities will never know exactly how many VCs are required in the deals, since the price changes will affect the exchange rate between Virtual Currency and fiat currencies. Moreover, it is also hard for sellers to set the price in terms of Virtual Currencies since the value and price of them are varying from time to time. Based on the reasons above, the Virtual Currency as an alternative payment system is not as promising as people think.

Tax evasion

Another worrying issue comes to the taxation of Virtual Currency. Virtual Currency has a high potential as a means for tax evasion. This is particularly the case with cryptocurrencies, where participants need not to disclose their identity, and transactions are peer-to-peer and can take place across borders.

A key issue in the tax treatment of Virtual Currency is still whether they should be treated as a form of (non-monetary) property, or as a form of currency. Where the former position is more adopted, the purchase of Virtual Currency for investment purposes would result in recognition of gains or losses. In such conditions, the owners will be required to pay the tax for any revenues acquired via Virtual Currency. Besides, during any deals relevant to Virtual Currency, value-added tax(VAT) and sales tax should be paid just like normal commodities. In the second case, when Virtual Currency is treated as a currency, the owners need to burden the expense to banks or agencies during the exchanges from Virtual Currencies to other forms of fiat currencies.

Most countries that have addressed this issue have determined that Virtual Currency will be treated for income tax purposes as non-currency (or in a few cases non-domestic currency) property, which is reasonable for the countries since the recognition of Virtual Currency as currency is with no doubt a radical and unreasonable decision as mentioned before. See for example: U.S., IR-2014-36 and IRS Notice 2014-21 (March 25, 2014); Canada, CRA news release (May 11, 2013); U.K., Revenue and Customs Brief 09/14 (Virtual Currencys are treated as foreign currency asset for income tax purposes); Australia, GSTR 2014/D3 (Virtual Currency transactions are treated as if barter transactions, Virtual Currency not money or foreign currency); France, declaration December 2013 (Virtual Currencys cannot be legally considered a currency); Germany, 2014 (Virtual Currencys is a form of “private money” treated like foreign exchange; earlier guidance suggested Virtual Currencys are commodities, and therefore subject to taxation upon both sale of Bitcoin and sale of goods in exchange for Bitcoin).

Since country practices have varied significantly, it is urgent for further analysis and discussions to be done to set universal criteria—including legal and regulatory changes. Moreover, international consistency should be promoted.

Potential Criminal Acts

Being untraceable raises concerns that cryptocurrencies may breach global financial integrity. Most cryptocurrencies are "pseudo-anonymous" (Brown and Steven David, 2016). Due to its decentralised nature, all transactions are publicly recorded to keep a valid public ledger. However, all transacting parties are only known by their digital ID. The problem lies in linking the digital ID with the real-world identity, which makes cryptocurrency a potential instrument for illicit financial flows. It is also possible for tech-savvy individuals to utilise flaws in the system, like logging in an account by using a server in a foreign country.

Being untraceable indicates that transactions using cryptocurrency can disguise and obscure the origin, process and destination of the money flow. The fund may easily get exploited in criminal activities, like money laundering, terrorist financing, tax evasion, fraud and the evasion of sanctions. Silk Road is the first example of an organised illegal online dark market where 70% of its products for sale are drugs. All transactions are conducted by using bitcoin to provide a certain degree of anonymity. In 2013, it was shut down by US law enforcement authorities.

Money laundering is another popular phenomenon in cryptocurrency transactions, especially the trans-border ones. There are three steps in money laundering process: placement, layering and integration. Placement means putting illicit money into different financial institutions by usually depositing small sums of money in different accounts. Layering involves washing money through multiple layers to conceal the source. In integration, the dirty money will be cleansed of its criminal source and integrated into "legitimate" circulation. When using cryptocurrency in this process, the weak linkage between digital record and real-world identities poses considerable difficulty for investigation.

A variety of cryptocurrency is emerging and becoming increasingly accepted in the mainstream. With the popularity of cryptocurrency rapidly growing, the possibility of converting it into fiat money undoubtedly increase. So does the possibility of potential criminal acts, for more opportunists will exploit the convenience to earn an advantage. At the same time, several countries are filling the vacuum of relevant policies to regulate these online transactions. Unless effective policies on such potential criminal acts are implemented, regulation may be outpaced by the fast development and acceptance of cryptocurrency.

Possible Solutions

Comprehensive Assessment

Virtual Currency is a newly emerged financial conception, and it is evident that neither the IMF nor governments have a crystal-clear understanding of its nature, its developmental pattern, and its current status. Thus, it is suggested that the IMF, alongside with its member countries' governments, set up assessment teams to closely study its nature and other characteristics. This will significantly improve the authority's knowledge on possible crimes related to Virtual Currency and how Virtual Currency might affect the global economy as a whole. It will also help governments to decide whether to refuse or to accept such conception to be traded and exchanged.

To further regulate Virtual Currency, the assessment team should also be expected to function for long terms in order to better keep up with any updates on Virtual Currency. To ensure the transparency, impartiality and independence of these assessment teams, it is also necessary for the IMF and governments to set up monitor groups and release activity updates of these assessment teams on a regular basis. Moreover, the outcome of the assessment could be released to the public since a lot of people are not aware of the pros and cons of Virtua Currencies. Therefore, the coming assessment will help build the cognition towards Virtual Currency to prevent people from deception in the deals of Virtual Currency by others.

Supervision under Global and Regional Organs

Based on the problems mentioned above, it is with no doubt that the Virtual Currencies, while the decentralisation is the core of Virtual Currency's operation, still need to be supervised in order to guarantee the normal operation. Several entities are able to impose the supervision: on the global level, IMF is able to authorize the Virtual Currency trade platforms and impose the surveillance on the records of deals; on the regional level, either the national central banks or the regional financial institutes could shoulder their responsibilities to sustain the financial stability from potential crises.

Several methods of supervision are provided below to give you some potential ways of surveillance. The first step to impose surveillance is that all the Virtual Currency trade platforms should be authorised by the central bank and recorded by IMF, so as to prevent the emergence and expansion of the Virtual Currency black market. Governments and central banks could provide the legal certificates to the Virtual Currency trade providers for them to have the authorisation to operate in certain regions. Some of the states in the U.S. like New York have already begun to provide the license of Virtual Currency trade to the platforms and all those who don't have the licenses will be regarded as illegal.

Moreover, the easier way for government and institutes is to establish an official bureau to set up a Virtual Currency platform to operate the Virtual Currency deals. It may be strongly against the principle of decentralisation, but it depends on what role of the government or institutes will play in the operation of Virtual Currency deals. It is also related to the second step of supervision which is to track the unusual or suspicious records of deals. However, the problem comes that what records should be traced. To trace those records whose trading amount is above certain number, or to trace the overactive accounts with frequent deals, or something else? Besides, all forms of supervision should be settled in terms of laws and rules to ensure its force, since only when the detail of supervision and regulation is officially written can the criminals be punished accordingly.

Indeed, the most prominent attraction for Virtual Currency is the freedom from control it provides, so if the governments or organs want to impose supervision while also take advantage of it to boost economies, it is highly necessary to ponder on what the proper method of surveillance will be. Some detailed discussion could be further considered in the conference with regard to the supervision who should exactly be in charge of such surveillance, what kind of records should be paid attention to and traced, etc.

Perfection of Laws and Regulations

Laws and relevant rules are imperative and even urgent to come out to better regulate the field of Virtual Currency. The primary questions for governments and institutes come to how to properly categorise Virtual Currency. As mentioned before, most countries regard it as financial assets while some others define it as a new form of payment. Whatever choices the countries make, it is encouraged that the decision should be settled in the form of official laws and rules. Otherwise, the vague notion of Virtual Currency will still leave the vacancy for potential criminals and speculation that hinder the establishment of a healthy environment of Virtual Currency.

Besides, since the rules concerning Virtual Currency vary from country to country, which suggests that there be some universal principles or guidelines for the policymakers to follow. Moreover, the diverse situations may trigger the difficulty in the trans-border trade and deals. Therefore, it is also necessary for countries with different policies with Virtual Currency to cooperate and find some channels to enable the trade relevant to Virtual Currencies. Regional cooperation or the mechanism set by IMF may also be useful for worldwide deals of Virtual Currency.

In addition, the price control could be added to the agenda, especially for those who consider Virtual Currency as financial assets. The consequence of uncontrolled price is needless to mention, as we see in the stock market with no limits of ups and downs. It is always the common people who suffer from the price fluctuations. Therefore, the daily price of Virtual Currencies could be confined to the range of up and down 10% or other ratios to keep the relative stability of prices. The policies of countries could vary, and IMF could set the maximum fluctuation range to guide countries' own policies.

Anti-crime laws should also be settled. During the perfection of laws, IMF needs to play the role of monitor and mediator who should connect international and regional/domestic level. It may come up with some criteria, principles, bottom lines and guidelines for countries to follow so that both two levels will keep at a similar direction of law settings. Regional organizations and countries could establish their own criteria based on the universal principles from IMF. Therefore, it requires a deeper cooperation between IMF and countries, not only in the lawmaking but also in the execution of laws like punishments and anti-crime actions in the form of regional cooperation under IMF to maintain the force of laws and rules.

Anti-Crime Methods

Virtual Currency has been subject to and tools of illicit cyberspace activities since the day it was born. The Federal Bureau of Investigation of the United States once released a full report on Bitcoin and the threats it poses (FBI, 2012). It states the following:

The FBI assesses with medium confidence that, in the near term, cyber criminals will treat Bitcoin as another payment option alongside more traditional and established virtual currencies such as WebMoney, which they have little reason to abandon.

The FBI further assesses with medium confidence, based on previously witnessed misuse of other virtual currencies, that malicious actors could increase their anonymity by laundering their bitcoins through third-party Bitcoin services registered outside the US. Some of these services act as exchangers or transmitters (see text box on page eight) that convert virtual currencies to fiat currencies (or other virtual currencies) or transfer bitcoins between members. Offshore services may provide additional anonymity by allowing currency exchange or money transfer without verifying user identification or enforcing any monetary exchange limits.

The FBI assesses with high confidence, based on reliable industry and FBI reporting, that criminals intending to steal bitcoins can target and exploit third-party Bitcoin services and an individual's Bitcoin wallet, principally because there is no central Bitcoin server to compromise. Malicious actors can compromise personal computers and accounts using malware and hacking techniques to steal users' bitcoins. Additional techniques involve the creation of botnets to compromise victim computers and servers instructing them to mine bitcoins.

Obviously, the emergence of Virtual Currency poses considerable challenges on law enforcement protecting the normal functioning and regulations of the market. To tackle these challenges properly, it is imperative for law-making entities of all nations to introduce domestic and international laws to regulate the activities of Virtual Currency. Moreover, law enforcement departments should be familiar with all kinds of "newly-emerged crimes", crimes known to have involvements with Virtual Currency and usually taking place in cyberspace, as soon as possible. The problems in need to consider may be the difficulty to trace criminals as well as the criteria to distinguish between criminals and normal deals.

Besides, countries on regional and international levels could make joint efforts to attack the trans-border criminals, ensuring the prevention of evasion of criminals. The perfection of Virtual Currency trading mechanism should also be brought up on IMF meetings since it is another important aspect of preventing Virtual Currency from being exploited as efficient methods by malicious individuals or groups in criminal activities. The perfection of trading mechanism can ensure the effectiveness of regulating laws and enable law enforcement to trace illegal activities.

Bloc Position

The United States of America

It is tough for United States Congress to approve the latest Quota and Governance, for it has postponed the pass of this reform for almost five years. If we view this reform from the US perspective, we may understand the long delay before ultimately passing this reform. The United States has long been the leading role in the IMF to make decisions, while the latest quota reform, together with several previous reforms has the similar purpose to weaken more or less the influence of the U.S. in IMF so that some developing economies like China, India, etc. could express more voices that match their economic strength. However, the apparent unwillingness and current voting mechanism hinder such reform to go further and enable the U.S. to continue being the de facto veto power nowadays.

For the United States, when it comes to the next round of Quota Review as this MUN conference simulates, it would probably maintain the same attitude. If the changes of quota is not vital enough to shake the veto power, U.S. may behave similarly to postpone the reform waiting till the last minute； if changes are huge enough to affect the leading role of the U.S. in IMF, the U.S. may not hesitate to use its veto power since the change of quota requires supermajority to pass.

However, U.S. needs to ponder on the consequence of its reluctance or rejection of quota reform or other essential reforms, since it has to face criticism from multiple parties. IMF itself and other countries struggling for an equal mechanism will urge the U.S. to make a compromise for emerging economies. At the meantime, IMF is also thinking about some alternatives like the double-track voting system to create a kind of balance with the current power of U.S. in IMF. Besides, there is also a long-lasting negative saying that IMF is de facto under control of U.S. which badly harms the confidence of other countries.

Therefore, for the U.S., it could either stick to its principle to keep power, or to think of some kinds of compromise or bargain with other countries, which on the one hand acknowledges the significant emerging markets, or on the other hand seek for a new form to keep its current influence on IMF.

As for Virtual Currency, The U.S. Securities and Exchange Commission (SEC) has ruled that Initial Coin Offerings or investment methods employed by Blockchain-based projects are all sales of securities, which means all participants in these activities will be subject to federal securities laws. Blockchain companies will be hugely affected, for the restrictions make the US market less attractive.

The U.S. authorities hold mixed attitudes towards Virtual Currency. The SEC ordered the ban on the trade of securities with Bitcoin as the underlying asset on a national securities exchange because the SEC finds the trade inconsistent with the Securities Exchange Act of 1934 which prevents manipulative and deceitful practices to protect investors and the public interest (Bitlegal, 2016c).

However, it is said that the Federal Reserve is considering creating its own digital currency at some point in the future (Harvey, Campbell R, 2017). Though no practical actions have taken place, the Fed has shown great interest in the potential of digital currencies to be in the mainstream or even a permanent fixture in financing. The Chair of the Fed also expressed little worry about Bitcoin because of its limited financial stability risks.

China

Regarded as the biggest beneficiary after the 14th Quota General Review, China is undergoing an increasingly closer tie with IMF. The inclusion of RMB into the SDR basket and the surge of quota ratio make China gradually reveal the power of its relatively strong economy. For the next round of Quota and Governance Reform, China should appreciate this opportunity and struggle for stronger voices from developing countries.

There are several concerns for China to ponder on. Firstly, it comes to how to promote the acquirement of power in IMF for emerging economies and developing countries since China could lead this tendency beginning at this round of Quota check. Many developing countries as China's good friends are expecting China to push forward the reform of funding, the quota formula, etc. to make the funding mechanism fairer and money could be utilised to those who are truly in need. Maybe China has its own concerns for such reform will probably be impeded by certain countries, but after the latest reform, it is only China that has the influence to do so.

The second concern refers to how to deal with the relationship between IMF and regional economic institutes. Since in the past several years, China provided several proposals like AIIB to enhance the regional economic stability, which, as mentioned before, have somehow spared the influence of IMF in certain regions. We are not sure whether it is good or not, but what is certain is that if IMF and regional institutes are not going well, the victims will be the countries in need of assistance.-

When it comes to Virtual Currency, the Chinese government has tightened regulations on bitcoin transactions in recent years. Chinese authorities ordered a ban on initial coin offerings (ICOs) in 2017 and issued warnings that virtual currencies are increasingly being applied in criminal acts, like money laundering (BBC, 2017). In response to the regulation, the BTCC Exchange, the top China Bitcoin Exchange, stopped all trading in 2017. It has sparked speculation that China may consider a complete ban on all transactions of virtual currencies.

In China, there is a great number of people trying to earn a fortune in Virtual Currency, especially Bitcoin, which challenges the void in government regulation. Individuals purchase equipment to set up bitcoin farms, usually near hydropower stations to get a bargain for the lower price of electricity which is against the law in China. Though few people understand how Virtual Currency works, an explosion of Virtual Currency trading is taking place in China. Regarding Virtual Currency, the Chinese government is in a dilemma between restricting transactions and encouraging business innovation.

Japan

With a slight drop in the latest reform, Japan remains the one that has the second largest quota share of 6.48% (IMF, 2018b). As the second largest shareholder, however, Japan's domestic economy is a little bit embarrassed since it has undergone quite low or zero economic growth in the recent decades, in the period of the so-called "The lost twenty years". IMF also criticised and warned the current economic policy of Japan even though it is IMF's second largest donor. The major criticism referred to the inefficiency of current "Abi Economic Policies" and the urgency of structural reform. Otherwise, the economy would not be recovered and trigger another round of financial fluctuations.

The background information provided above about Japan's economy mainly indicates the unconformity of its economic strength and its high quota share in IMF, since the quota share should have reflected the country's economic strength. The second largest quota share seems not fit a worrying economic entity. Therefore, Japan is quite easily doubted and criticised for its unreasonable high share. Moreover, since the quota distribution is determined by quota formula, people then will begin to doubt the justification of this formula on whether it can truly reflect economies. Indeed, in the latest reform of quota, Japan remains its status in IMF, but if Japan is not able to get rid of the worrying situation, being overtaken by other countries is likely to occur in the future.

Based on such reasons, Japan may have two ways to tackle its dilemma. It may firstly stick to the current quota distribution with its expectation that Japan under the Abi economy will redevelop in the coming future, and with the help of its alliance in the IMF, its quota share will probably not drop dramatically; the other way less likely comes that Japan may make compromise to take the suggestion from IMF to take the domestic reform and agree to decrease the quota share. No matter what solutions Japan will take in the conference, it has to face the unconformity.

As for Virtual Currency, the legitimacy of cryptocurrency is approved by Japanese government by making cryptocurrency on a par with government currency. The Japanese government also promote the usage of Virtual Currency as another payment method to buy and sell commodities. It is said that Japan is going to lead the VC trend and even consider Virtual Currency as the fiat currency in the future.

A law was passed in 2016 to ensure the legality of Virtual Currency exchange and regulate its transactions. The bill aims to amend the Payment Services Act to include Virtual Currency as a type of payment instrument, to require registration of Virtual Currency exchanges, consumer protection and mandatory Anti Money Laundering compliance. These licensing requirements are applied to Japanese residents, but this will also influence Virtual Currency exchange service providers around the globe who target the Japanese market. Japanese financial authorities are vested with adequate enforcement powers, including issuing business improvement orders, organising on-site inspections and even suspend business, to ensure a standard and stable market.

Other Asian Countries

Asian countries other than China and Japan mainly include Middle Asia, Southeast Asia and the Middle East. Several countries in Central and South East Asia own prominent quota shares like India, Singapore, etc., but more countries in these regions still struggle for the greater economic growth as well as the larger shares in IMF. Therefore, for those in Southeast Asia, the economic growth may be still the priority in the next several years. Under the framework of ASEAN and other regional organs, the relatively small countries could make joint efforts to again reach the Asian prosperity.

The Middle East, however, is facing another issue. The continuing wars and conflicts, greatly hamper the economic development of this area. Actually, this area has abundant resources of oil and gas which benefits a lot of countries like Saudi Arabia and the United Arab Emirates, who own the quota share of 2.1% and 0.49% (IMF, 2018b), but the religious conflicts and potential terrorist actions in this region enforce the local governments focus more on the security than economies. Countries in this region could ponder on how to create a proper and stable environment for the economic growth firstly before seeking for larger voices in IMF.

For Virtual Currency, some Asian countries behave similarly, with a cautious view towards the rise of Virtual Currencies. For example (Kelly Robertson, 2017), Thailand is strictly prohibiting the trade of Virtual Currency; India, Malaysia and Singapore have not come up with clear regulations or supervision, but they have warned the potential risks behind the relevant trade. Particularly, Singapore has enacted a special tax on the Virtual Currency as a kind of good purchased. While some other countries like Philippine acknowledge the Virtual Currency like Bitcoin as the legitimate method of payment, while issuing the proper regulatory framework on Virtual Currency.

European Countries

European countries, especially western ones like France, Germany, the United Kingdom, etc. also make some degrees of compromise in the last quota reform. Their quota shares, together with the voting share have slightly dropped, which seems little but exposes the potential fall of European countries. On the quota distribution, European countries may hold the same opinion with the U.S. to be reluctant to push forward a radical reform since after the latest reform the sum of their quota shares has already become lower than 15% from above it, which may give the entering and rise of quota from developing countries another impediment.

Another issue for European countries to consider is how to seek for multiple ways of funding. For the last several decades, European countries always have the struggle to relieve from the financial crises. Starting from the Greek Sovereign Debt Crisis, the whole Europe is under the shadow of crises. However, as mentioned before, the harsh conditions of funding make IMF contribute less to its recovery than what was expected, which greatly weaken the confidence of European countries towards the capability of IMF. Therefore, for the next round of reform, European countries may choose to firmly propose some changes in the funding mechanism to guarantee their rights in IMF, or they will choose to seek for other ways of funding to tackle their crises and recover from the fiscal deficit.

Compared with the United States, European countries seem not to be so urgent to take “control” of IMF, but as the traditional financial centres, they may also have the will to maintain its global financial status even though they are under trouble recently. Therefore, it is essential for European countries, not only the big powers, but also other European countries as a whole to think about how to engage in the next wave of quota check and review, and also how to pursue the European interest.

For the second topic, all European authorities have sent a clear signal of tightening regulation on Virtual Currency. European Banking Authority sent warnings to the public about potential illicit money flow and risks associated with virtual currencies. It is vying for the opportunity to design the guidelines for Virtual Currency, but also worries about misinterpretation from businesses (Bitlegal, 2016a). The stance from European Banking Authority is to segregate the fiat money transactions from the Virtual Currency into two separate corporate vehicles.

The European Central Bank has rejected Estonia’s request to launch its own state-run digital currency, Estcoin. Currently, the European Commission is conducting a risk assessment on illegal money flow using Virtual Currency (Bitlegal, 2016b), including terrorist financing, money laundering and so on. The EU Commission also proposed the 4th Anti-Money Laundering Directive, which implies the requirement for all associated transacting parties to be registered with relevant supervisory authority in their jurisdiction and comply with the Anti Money Laundering requirements of the 4th Directive.

African Countries

African countries may be the ones who are most urgent to seek for substantive reforms of IMF quota and voting power. After the latest reform of quota and governance, the share of African countries did not change a lot, with still no country above 1% and few countries above 0.5%. Based on the outcome, some countries in Africa, with BRICS including South Africa, have expressed their expectations that IMF should strengthen the voice and representation of the poorest countries, especially the poor sub-Saharan African countries. Moreover, among all five countries of BRICS, only South Africa has not squeezed to the top 10 countries with the largest quota shares, which may not satisfy African countries.

The core reason of the limited quota for African countries may still be the poor performance of economies in the African regions, though compared with the past, it has made huge progress. Therefore, with regard to the funding mechanism, African countries may look for the reforms of it since the current quota-based funding cannot make up the funding gap for the overall rise of Africa. If the funding could be provided depended less on the quota share but more on the urgency of financial assistance, it would do a favour to the African economies.

To struggle for more voices in IMF may also require the emerging markets which have recently gained the quota increase like China, Brazil, etc. to represent developing countries and gain more influence in IMF, pushing forward the next round of reform. Moreover, African countries may look for some measures other than IMF. The regional cooperation like current East African Community is one good way to make joint efforts to raise regional influence; the cooperation with other countries like the participation of Belt and Road Initiative to get assistance. However, the African countries may not consider the regional economic rise but the increased status in IMF via the rise of economies as the ultimate goal, since plenty of global economic affairs are decided by IMF. Therefore, for African countries, the priority for now may come to the multiple channels to boost regional economies and continue putting forward the reform of IMF.

As for Virtual Currency, most African countries hold the cautious and negative attitudes, varying from the harsh supervision to total prohibition. Some of the African government or Central banks have some reasonable worries, like the Central Bank of Kenya once warned that the Virtual Currency is insecure and may lead to funding terrorism. Actually there are several reasons for African countries not to accept the novel conception. The first is the lack of infrastructure of communication, especially Internet, which is the base to operate Virtual Currencies. The cover of the Internet currently cannot promise the ongoing trade, let alone the digging action.

The second reason refers to the relatively low level of education. Without enough knowledge of the mechanism of Virtual Currency or even finance, African traders in this field may easily be exploited by deception or speculation. Moreover, the supervision towards Virtual Currency is nearly blank, which hinders the local governments to take any further radical steps to introduce Virtual Currency. Therefore, it seems that only after the problems mentioned before were solved can the Virtual Currency have substantive development in Africa.

Other countries

With limited space, the stances of other countries will not be illustrated in detail, including some countries with relatively high percentages of quota share in IMF like Russian Federation across Europe and Asia, Brazil in Latin America, Canada in America, Australia in Oceania, etc. We would like to provide the table below to show you the top 20 countries with the highest percentage of quota share in IMF, and to see the complete quota distribution (IMF, 2018b); also please check the existing quotas in the official website provided in the references (IMF, 2018b).

Rank	Country	Quota Share (%)
1	The United States of America	17.398
2	Japan	6.461
3	China	6.390
4	Germany	5.583
5	France	4.225
6	United Kingdom	4.225
7	Italy	3.159
8	India	2.749
9	Russian Federation	2.705
10	Brazil	2.315
11	Canada	2.311
12	Saudi Arabia	2.095
13	Spain	1.999
14	Mexico	1.868
15	Holland	1.831
16	Republic of Korea	1.799
17	Australia	1.378
18	Belgium	1.344
19	Switzerland	1.210
20	Turkey	0.977

Table 2. Top 20 countries ranked by quota shares after the 15th quota review

(IMF, 2018b)

While attitudes towards Virtual Currencies are cautious in plenty of countries, some countries like Finland and Japan express their welcome and set up discussion on the specific ways to ensure its operation. Besides, the points of view towards Virtual Currency vary from country to country, so we would like to provide you with some detailed summaries of stances towards Virtual Currency by nations, areas and regions in the reference (Kelly Robertson, 2017; Raul Amoros, 2018) for you to better understand how countries differ from each other on the Virtual Currency.

Questions to Consider

1.What are the main achievements of the latest IMF Quota and Governance Reform? What progress has been made? Moreover, in what field does it still need to improve?

2.In order to make the quota formula more convincing, what new variables can be added and what mechanism can ensure the formula will objectively reveal the economic strength of one country?

3.In reality, what other solutions could tackle the current unfair voting mechanism? How can the voting truly represent the wills of most members in IMF?

4.What role does IMF play currently in global economic issues? What's the relationship between IMF and regional organs?

5.How will IMF react after the economic crises? How to provide efficient assistance?

6.What is exactly Virtual Currency? How is it defined? Do you have any experiences or intentions to buy Virtual Currency?

7.Do you think it is good to have decentralised deals without any sole entity to act as the monitor or supervisor? What are its pros and cons?

8.What is Blockchain? How does it work? Are there any loopholes behind this technology?

9.If the governments, central banks or IMF intervene the current mechanism of VC as some of them have already done, what are proper methods of intervention that will keep financial stability?

10.How to effectively trace and deal with crimes related to Virtual Currency? What unique features does such kind of crime have?

11.Given the current situation of Virtual Currency, what other problems do you think would it face in the future? Is it another economic growth point or just bubbles?

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