MODEL UNITED NATIONS

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DIRECTORS WELCOME LETTER:

Dear Delegates and Faculty Advisors,

It is my pleasure to welcome you to the American University of Sharjah Model United Nations (AUSMUN) 2020. This conference has been the home of fruitful debate, practical resolutions, dedicated moderators, spectacular delegates, and diligent advisory and executive boards for the past twelve years and is continuing to do so for its thirteenth year. With 1000 delegates registered from more than 45 national and international educational institutions, this conference will be the biggest one yet!

This year's theme 'Embracing Diversity, Shaping the Future' has been designed to capture the essence of issues that surround our globalized society. Even though we have come this forward in time, there has been little to no improvement in accepting diversity as portrayed by the latest atrocities in several countries around the world. However, the future can be successfully be shaped for us, the youth, only by embracing diversity in every sector of life and we hope to draw attention to this.

This background guide has been formulated by our hard-working chairs and the research team to provide delegates with the starting point of their preparation for this three-day conference. The guide is initially divided into two sections based on the two topics and is further split into logical components. Firstly, the Summary and History section acts as an introduction to the issue by highlighting important events, terms, history, and global implications. Secondly, the Discourse on the Issue section establishes a link between the issue, its implications, significance, and the United Nations Charter. Lastly, the Past International Organization (IO) Actions and Latest Developments section elaborates on the previous action that has been taken and latest development in terms of the last actions taken with regards to the issue. At the end of each issue, delegates will find sections of Questions the Discussions and Resolutions Should Address and Suggestions for Further Research that aim to streamline the process of delegate's research. However, in order to grab a better understanding of the topic and be able to position yourself better to participate during the conference, it is advised to go beyond the background guide since this guide does not encapsulate enough information to be sufficient for every country and is only a brief introduction to the issues at hand. It is highly encouraged for delegates to view the 'Delegate Handbook' on the AUSMUN website and the 'How to Research' video on YouTube created by AUSMUN.

Finally, I would like to extend my sincerest gratitude to all the contributors to this background guide. It is the collaborative work of the Moderators, AUSMUN Research Team, and the AUSMUN Media Team. On behalf of them all, I truly hope that this guide will be of great help to you.

All the very best for the conference and if you have any queries or concerns, please do not hesitate to contact me at research@ausmun.com.

Sincerely,
Manaswi Madichetty
Director of Research
AUSMUN 2020

MODERATORS WELCOME LETTER:

Manaf Al Salehi

Rizana Mariyam

Fathima Moyikkal

Hadi Atteli

Dear Delegates,

It is with immense pleasure that we welcome you all to the 13th American University of Sharjah Model United Nations (AUSMUN) conference. We hope to deliver an educational and challenging platform for you all.

The International Monetary Fund (IMF), initiated in 1945 under the Bretton Woods system, was established to restore the world economy after the second world war. With 189 countries in the IMF, it gives it semi-global participation by the countries of the world. It accomplishes its objectives by three strategies in which they provide loans for member nations and balance of payment difficulties, monitor and advise nations on financial and economic policy changes, as well as work with governments in to further improve their own economic states and global economy. The IMF has many objectives of which many of them are related to the topics at hand and should be met while drafting the resolutions, both for 'Regulating the Shadow Banking System' and 'Imposing regulations on Crypto-currency to limit crime financing'. The voting procedure for the IMF will be one vote per delegate and with regards to the resolutions, the vote will need to be a simple majority in order to pass them.

The IMF chairs encourage you to enjoy the committee sessions and derive the most beneficial experience, while adhering to the committee rules of conduct. We hope that you are as excited as we are to make this one of the best conferences.

Feel free to contact us at any time for any inquiries on g00071722@aus.edu

Sincerely,
IMF Chairs.

IMF

The International Monetary Fund

Topic I

Regulating the Shadow Banking Systems

1. Summary & History

Shadow Banking is a phrase that can be used to describe a number of things. In this case, shadow banking, a term coined by McCulley, is a form of financial intermediation which is provided as a response to the demands and urgency of the willing borrowers and lenders that have not been met (IMF, 2019). Shadow Banking, therefore, assists in providing finances to any vacuum in the market by increasing efficiency. This includes providing new outlets to issuers in order to obtain capital when the bank refuses to lend or is not capable of lending and also includes providing channels in hopes of portfolio diversification for lenders (IMF, 2019). However, shadow banking is highly risky. Primarily, shadow banking has a complex structure and therefore, lacks transparency and predominantly uses deposits like short-term debts to provide capital to long-term investments. Nonetheless, shadow banking occurs through mediators who are specialized and thereby accepts balance-sheets of multiple firms (IMF, 2019). Compared to a traditional bank that accepts deposits, shadow banking systems do not have access to official sector backstops. This is because shadow banking makes profit from the assumption that the fear of exposing the sponsor will lead to high reputational damage and therefore, the sponsors will never cease to return the investment (IMF, 2019). The liabilities of shadow banking project deliverables are primarily debt-financed in the wholesale market.

Although shadow banking is risky, it serves as a useful tool in the economy. The use of shadow banking that positively impacts the economy is the fact that it provides funding to traditional banks and without this funding, traditional banks would not lend money, which would then slow growth in the wider economy. However, regulations must be enforced in order to maintain financial stability. The need for resilience is important in order to maintain modes of capital to maintain market stability (IMF, 2019). An efficient resilient funding base can be reflected in more longer-term, diverse, and non-runnable forms of debt and equity, rather than primary reliance on short-term wholesale financing. A major risk of shadow banking is Agency Frictions and Informational Asymmetries which creates a platform for the exploitation of informational asymmetries such that it shows negative externalities. Secondly, Sponsor Backstops and Contingent Liabilities are used to describe the subsidizing of external risk absorption capacity. A common example of this can be the tail risk insurance provided in the form of guarantees by insurance companies (IMF, 2019). Lastly, Regulatory Arbitrage refers to the taxation and other activities that come about as a result of making the process profitable even when it is not. The associated vulnerabilities can be magnified when agents are incentivized to exploit regulatory loopholes and asymmetric information, possibly requiring the ultimate backstop to be deployed to put out the ensuing blaze (IMF, 2019). Nonetheless, it is important that IMF initiates essential reformations for the betterment of the shadow banking system.

2. Discourse on the Issue

The Financial Stability Board (FSB) has estimated that globally the shadow banking system represents 25% of financial system assets ("Global Shadow Banking Monitoring Report", 2012). Since the financial crisis of 2007-09, which was triggered in August 2007 by a wholesale banking panic in the shadow banking system, international organizations are constantly trying to regulate and monitor the shadow banking system. The crisis exposed fundamental flaws in the design of the shadow banking system (Adrian & Ashcraft, 2012). Unfortunately, the operations of many shadow banking are mutually connected with traditional banking and insurance institutions. In other terms, this means that financial crises can destroy the global economy. Therefore, regulation and constant monitoring of shadow banks are mandatory specially to avoid any systematic risks.

The largest shadow banking systems are found in advanced economies. According to the 2014 and 2015 Global Financial Stability Report by the IMF, the United States, the People's Republic of China, and the European Union appear to have the largest shadow banking systems. However, the United States shadow banking system decreased from 33% of the total to 28% in 2015. Additionally, in emerging market economies, the development of shadow banking has been strong.

Furthermore, shadow banking can be useful. It broadens access to credit where traditional banking networks need to handle capacity or regulatory constraints, such as restrictions on lending ("IMF Survey: Shadow Banking Is Boon, Bane for Financial System", 2014). It often, however, comes with systemic risks, as seen during the 2007–09 global financial crisis. Hence, the challenge for policymakers is to maximize the benefits of shadow banking while minimizing systemic risks.

3. Past International Organization (IO) Actions & Latest Developments

The IMF and FSB have worked alongside one another to find effective regulators and monitors for shadow banking systems. The FSB, in response to the request from the G20 leaders at the 2010 Seoul Summit, has played a major role in the international effort to make non-bank credit intermediation more resilient (Adrian, 2017). The IMF has been equally engaged, by strengthening its supervision under the Financial Sector Assessment Programs and Article IV Consultations, and its multilateral surveillance work featured in the Global Financial Stability Report. In Europe, the European Systemic Risk Board (ESRB) is involved with recording the European Union's shadow banking system.

The FSB has created a system-wide monitoring framework to trace any emerging changes in the global shadow banking system, with a view to detecting the buildup of systemic risks and starting counteractive actions where needed. The annual Global Shadow Banking Monitoring Report is a highlight of this work. One of the main actions taken by international organizations is Basel III reforms (Adrian & Jones, 2018). Basel III is a global, controlled regulatory framework that introduced a set of reforms designed to improve the regulation, administration and risk management within the banking sector ("Basel III: international regulatory framework for banks", 2017).
The IMF encourages countries to find different regulation methods for the shadow banking system due to the fact that a one-size-fits-all policy would not work for the vast diverse economies of the world. IMF has the power to change the fate of a dying economy. However, it largely relies on the contributors and its biggest contributor is the United States. The United States, as mentioned before, has one of the largest shadow banking systems, therefore, a future financial crisis in the United States can shatter the global economy, bringing down the dependent countries and international organizations such as the IMF.

4. Questions the Discussions and Resolutions Should Address

- What are some successful regulations previously used by nations?
- What are the main forms of liabilities or risks that occur as a consequence of Shadow Banking?
- How can rating agency practices be reformed as a result of reforming Shadow Banking?
- How can securitization practices be strengthened in developed, developing and under-developed countries?

5. Suggestions for Further Research

- Previous Reforms That were Passed
- Credit Intermediation in Different Countries
- Steps Taken by Nations with Decreasing Shadow Banking
- Hidden Risks with Shadow Banking

Topic II

Imposing Regulations on Crypto-currency to Limit Crime Financing

1. Summary & History

Digital currencies are currencies with no physical form that can be used to buy a variety of things including physical goods and services. They are similar to conventional money; however, they differ in their borderless transfer of ownership as well as instantaneous transactions. Banks do not accept or offer services for cryptocurrencies. Their extremely high rate of variation in its trading value can be very risky and provides cryptocurrencies with the potential for illegal schemes. Many countries have warned their citizens about such risks associated with cryptocurrencies, henceforth discourage users from using them. Furthermore, a problem with cryptocurrencies is their anonymous trait which attracts more criminal attitudes, regardless of the purpose of use. The fact that it cannot be traced makes it a perfect use for criminal acts such as fraud and various schemes. Therefore, cryptocurrencies may put citizens at risk of not knowing who they may be dealing with and whether it would turn out to be a fraud or not.

The first-ever released decentralized cryptocurrency known as "Bitcoin" was created back in 2009. Since its release, more than 6,000 alternate cryptocurrencies have been created. The first-ever recorded transaction using cryptocurrency was a man purchasing a pizza for an amount of 10,000 bitcoins. Ever since then, individuals have slowly started to use cryptocurrencies for various needs, such as purchase of goods and services. As cryptocurrencies started to become more common, its anonymity to some individuals became clear to be a perfect tool to be used in crimes, as the transactions cannot be tracked. Crimes that are executed within cryptocurrencies and any related spheres are usually defined as cryptocurrency crimes. The most frequent cryptocurrency crime since its release is stealing money from electronic wallets and storages through hacking or by obtaining information by fraud. Other forms of crime were stealing money from individuals by unverified exchanges, selling and purchasing of illegal substances and materials, and making transactions through suspicious services.

Cryptocurrencies are not a formally accepted mean of transaction, yet they are still used all around the world. Since it lacks a physical form, the best way to complete transactions is by utilizing blockchains. Blockchain is a type of database that records and encrypts every transaction executed, it is safe, secure, and easily accessible. Blockchains are different than the usual databases, they are not only accessible by one primary administrator, rather the entire database is transparent and viewable by the general public. Although it is a transparent platform, it is still secure, as there is no specific point that hackers might target and all data is encrypted. It is important to understand that blockchain and cryptocurrencies are not synonyms, rather blockchain is the technology behind the workings of cryptocurrencies.

2. Discourse on the Issue

With the great recession of 2008 still fresh in memory, state regulators and central banks are increasingly distrustful of the blockchain bonanza. They dread that the digital-only currency could turn out to be an overblown bubble, ready to erupt and send shockwaves through the "real" economy. Cryptocurrencies have no tangible grounding and their worth is determined greatly by demand. This means they are worth only as much as customers are willing to pay for them at any given moment, making them highly susceptible to instability and abrupt value fluctuations. The pundits of cryptographic forms of money incorporate some conspicuous worldwide lenders, for example, the JPMorgan Chase Chief Executive Jamie Dimon, who as of late proposed that bitcoin was for the most part valuable for "drug dealers and murderers.", ("Regulating The No Man's Coin Article", 2017). While this is an outrageous view, the facts demonstrate that digital currencies have been utilized for money laundering, tax evasion and dodging international sanctions. The transfer of prohibited or controlled goods is made possible by the anonymous web browsing site. Cryptocurrencies do not rely on the use of financial institutions to make transactions and thus are very attractive to criminals to fund illegal activities. The use of cryptocurrencies is extremely attractive because it poses significantly less risk of capture since criminals do not need to meet in person to exchange illicit goods. The use of the dark web diminishes the stabilizing effect law enforcement operations have on unlawful market distribution. The rapid use of technology has made solving crime significantly more complex than finding a license plate or social security number. Cryptocurrencies do not leave a paper trail, face, eyewitnesses, or a video surveillance tape. Cryptocurrencies make it harder for law enforcement officials to apprehend criminals who participate in criminal activity due to the lack of physical evidence they are accustomed to seeing.

3. Past IO Actions and The Latest Developments

Several years ago, the Fed and the European Union Central Bank started accommodating cryptocurrencies as virtual currencies. More recently, the Islamic Republic of Iran began organizing the use of cryptocurrencies as one of its authorized payment procedures. Ukraine presented legislation that plans to tax the gains from "mining" and trading of cryptocurrencies. The Russian Federation is expected to regulate its market next year. Most countries do not go as far as China, where cryptocurrencies have been banned as of September 2017, and instead try to restrict in the largely unfettered cryptocurrency market by integrating it in their financial and banking systems and applying the correlated rules and laws ("Regulating The No Man's Coin Article", 2017). Decentralized and self-ruling, cryptographic forms of money are represented by the clients' accord over a lot of rules. They are autonomous from political impact and activities of fiscal specialists. This likewise implies, if there should arise an occurrence of cryptographic forms of money's rebelliousness with a nation's laws or guidelines, there will be no foundation to consider responsible. Nations have genuine reasons behind attempting to control the digital currency showcase: protecting the economy from another burst bubble, shielding their residents from clueless choices that could cost them their reserve funds and profiting launderers to move money crosswise over outskirts. Though the value of these assets is irregularly inflated, the risk of becoming a financial bubble increases greatly without anchors in reality. Governments wishing to fix their banking and assessment frameworks to avert these practices should cautiously screen the new market of computerized coins.

4. Questions The Discussions and The Resolutions Should Address

- Within the jurisdiction of the IMF, how can we regulate said cryptocurrencies?
- How would said regulations be implemented?
- How would the regulations of cryptocurrencies affect the virtual market?
- What other solutions are viable in order to crack down on crime financing in the virtual market?
- How can governmental institutions and financial bodies assist in regulating these currencies?

5. Suggestions For Further Research

- Main Forms of Crime Financing in the Virtual Market
- Previous Regulations Passed by the IMF

- Bitcoin and the Future of the Global Economy
- Quasi-Cryptocurrency: Advantages and Disadvantages

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