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Russian Firm Plans Local Version of Bitcoin Digital Currency

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Banks and other financial institutions around the world are examining using technologies pioneered by virtual currencies to decrease costs and increase the efficiency of transactions.

A leading Russian payment services provider is developing the country's first virtual currency — the bitruble.

If the company, Qiwi, can overcome resistance from Russia's financial authorities — which fear that cryptocurrencies could be used to launder money and finance terrorism — it will launch the new digital ruble next year, chief executive Sergei Solonin told the Kommersant newspaper. Qiwi is investing several hundred million rubles in the project, Solonin said.

Virtual currencies, which exist outside the mastery of national central banks and allow anonymous user-to-user transactions, have unsettled financial regulators since the most famous — Bitcoin — appeared in 2009. Many countries including the U.S. have allowed their use. In Russia they occupy a gray zone: Some Russian authorities have said they are illegal, but

no specific legislation against them has been passed.

News of Qiwi's bitruble plans provoked an immediate reaction when it emerged on Wednesday. Pavel Medvedev, Russia's financial ombudsman, branded it "hooliganism" in an interview with radio station Govorit Moskva. "This kind of outrage bears criminal responsibility," he said.

Deputy Finance Minister Alexei Moiseyev said a virtual currency was "a plaything that can carry serious risks of money laundering and tax evasion," according to the Interfax news agency.

But the bitruble also has defenders. The company's director of communications, Konstantin Koltsov, told The Moscow Times on Thursday that Solonin had discussed the new virtual currency with the head of the Central Bank — which would have to approve the bitruble before it could be launched legally in Russia — and the head of the country's biggest lender, Sberbank.

Both people argued for digital money on Thursday. Governor Elvira Nabiullina said the Central Bank would find a solution to enable its use, though she acknowledged the risks of illegal financial operations in virtual currencies, according to news agency Interfax.

Sberbank's German Gref told Interfax that he own Bitcoins — though he did not say how many — and said digital money should be worked with, not banned.

Banks and other financial institutions around the world are examining using technologies pioneered by virtual currencies to decrease costs and increase the efficiency of transactions. The value of circulating Bitcoin — which can be bought with traditional money or earned within the currency's system — at the start of 2014 was more than $10 billion, according to statista.com.

However, Deputy Minister Moiseyev said on Wednesday the government was discussing a bill that would severely tighten the responsibility for the issue and circulation of alternative currencies in Russia.

The Finance Ministry in October last year proposed to introduce penalties for their use and distribution in Russia from 5,000 to 50,000 rubles ($77-$770) for individuals and from 0.5 to 1 million rubles ($7,700-$15,400) for legal entities. The bill was criticized by the Economic Development Ministry, which said it was so broad it would affect money substitutes including bonus points and gift cards. The ministry submitted a new version with revisions and smaller fines, which has not yet been passed.

As a result, the legal status of virtual currencies remains foggy. A regional court in January banned five Bitcoin-related websites, but the ruling was later overturned.

The Russian public is also suspicious. A survey by ProResearch and the National Agency for Financial Studies published in May found that only 20 percent of Russians knew what Bitcoin was, but that twice that number — 40 percent — thought it should be banned if it could be used to buy illegal goods. Only one-quarter of respondents said Bitcoin should be legal.

Qiwi's new currency will employ either the blockchain technology used by Bitcoin or

BitShares, a virtual exchange platform, both of which are being tested and modified by Qiwi to fit them to Russian legislation, according to the Kommersant report.

Koltsov said the company would continue to develop the bitruble, but market players were divided on the the currency's likely fate. Vladimir Malyugin, head of online payment system PayPal in Russia, said cryptocurrencies had huge prospects in the country. But a representative of Yandex.Money, another payment provider, said that until Russian regulation embraced virtual currencies, a bitruble would struggle to find users.

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