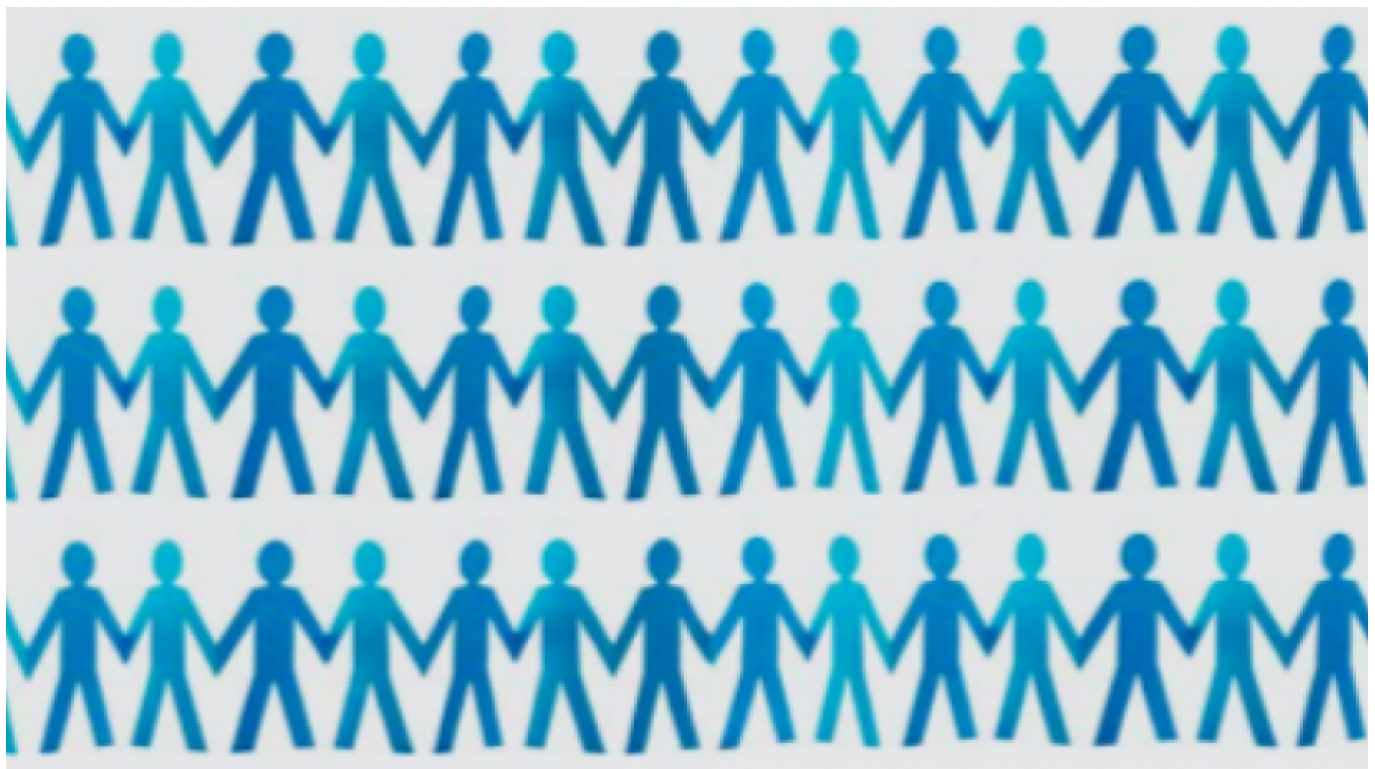


Russia Debates how to Regulate Bitcoins

What is missing is the regulation to protect investors from fraud

By [Ben Aris](#)

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The value of the cryptocurrency bitcoin jumped after Russian President Vladimir Putin announced that Russia wants to regulate the trading of the virtual money.

Cryptocurrencies are becoming a full-fledged means of payment but their use carries the risks of money laundering and funding terrorism, Putin said at a government meeting devoted to crypto-currencies, the Interfax news agency reported on Oct. 10.

"We need, based on international experience, to build a regulatory environment that would help us to control relations in that area," Putin was cited as saying, adding that there shouldn't be any "excessive barriers" to the use of cryptocurrencies.

Russia has gone a bit blockchain bonkers since Putin highlighted at the St. Petersburg International Economic Forum (SPIEF) he intends to throw everything at digitizing the economy.

Russia has been looking around for something new to be good at and the Kremlin has clearly latched on to the idea of cryptocurrencies as the next big thing.

The problem is the very nature of a blockchain, which hosts the cryptocurrencies and gives them value by immutably recording their ownership, is that it is decentralized.

There is no administrator or central depository, which is poignantly called a “central” bank, and in this sense, they are the antithesis of money.

Putin is well aware of the Central Bank of Russia (CBR) concerns over cryptocurrencies but seems determined to push ahead with promoting blockchain technology in Russia. He laid out more detail on October 10.

"I know the position of the central bank," Putin was cited by the Vedomosti newspaper as saying. "First of all, there is the possibility of laundering criminal capital, tax evasion and financing of terrorism. And, of course, there is the danger of spreading of fraudulent schemes, whose victims could be ordinary citizens."

Putin said he is well aware that bitcoins could be put to nefarious use and indeed the last big computer virus attack in Russia that froze computers around the world demanded a ransom paid in bitcoins in order to keep the identity of the perpetrators secret.

A massive cyber-attack [wrought](#) havoc on energy, transport and government computer systems in Ukraine and Russia on June 27. The Petrwrap virus spread rapidly beyond these countries, with reports of disruptions also in Denmark, Romania, Spain and the UK.

It attacked computers using an accounting software largely used in the Commonwealth of Independent States (CIS) and appeared to target computers in Ukraine to begin with.

Blockchain is a la mode across the former Soviet Union, with Ukraine and Georgia leading the way, having already instituted some blockchain projects to register property ownership. But all the central banks in the region are decidedly unhappy with the idea of an unregulated fiat currency that is based on nothing tangible.

Many of the governors of central banks, including the CBR and the National Bank of Ukraine (NBU), have likened bitcoin and its sister currency Ethereum, which is the Russians' preferred coin, to Ponzi schemes. The worry is that normal people will get caught up in the craze and lose large amounts of money speculating on these cryptocurrencies.

But the benefits of using a blockchain to register property, organize state procurement contracts or simply trade financial instruments could be enormous; in theory using a blockchain is faster, cheaper and essentially risk-free. And best of all it takes people out of the equation, making corruption next to impossible.

What is missing is the regulation to protect investors from fraud. While you can't counterfeit cryptocurrencies once they are made, you can trick people into fake transactions.

The CBR is proposing to regulate the point of sale where it is easiest to run scams. While details are still thin on the ground Sergey Shvetsov, the first deputy chairman of the Russian central bank, suggested in a speech this week that the CBR would license the websites where it

is possible to buy cryptocurrencies.

According to him, the regulator considers cryptocurrency as a derivative instrument and as a negative phenomenon in the Russian market. He said the CBR will not support the cryptocurrencies and would limit their use in the regulated part of the Russian market. As such, the CBR is already working with the Prosecutor General's Office to close or block websites where it is possible to buy and sell cryptocurrencies in order to bring some order into the business.

"Cryptocurrencies are a tool that does not allow the regulator to provide protection to investors," Shvetsov said, highlighting the regulator's main concern.

"These are instruments with ambiguous economic nature, lacking a legal description. We believe that for our citizens and businesses the use of such cryptocurrencies as an object for investment carries unnecessarily increased risks. Moreover, we observe that bitcoins... are gradually turning into an asset that is acquired in order to obtain big profitability in a short period of time. In other words, they are a financial pyramid," Interfax cited Shvetsov as saying.

Putin said the job of regulating cryptocurrencies belongs to the Ministry of Finance and equated the buying of bitcoins to investing in federal treasury bonds or OFZ.

There doesn't seem to be a consensus on how to regulate blockchain technology yet. CBR governor Elvira Nabiullina is taking a hard line and already closing sites that offer bitcoin trades on the basis of existing currency laws. The CEO of Sberbank German Gref wants to lightly regulate the business so as, "not to strangle this extremely promising technology in the embrace of regulation," he said in a recent speech. And Putin seems to be in the middle of these poles.

In late August, Russia's leading exchange, the Moscow Exchange (MOEX) said it was [preparing](#) infrastructure for a cryptocurrency trading platform.

At the moment, no regulations with regards to cryptocurrencies are in place in Russia. However, the cryptocurrency craze has captured many Russians who try to cash in by mining cryptocurrencies.

As a result, energy utilities such as EuroSibenergo are [getting](#) "dozens of requests" from domestic miners that process blockchain transactions to earn cryptocurrency in an energy-intensive hardware farms.

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