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Russia's Finance Ministry Submits Draft Cryptocurrency Regulations

While the country has the world's third-largest crypto mining industry, the Central Bank sees its trade as risky.

By Molly Schwartz

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Russia's largest cryptocurrency mining center in the Leningrad region. **Kirill Zykov / Moskva News Agency**

The Russian Finance Ministry has submitted a draft of long-awaited cryptocurrency regulations to the government on Monday, marking a small step toward clarity for a booming yet largely unregulated industry.

The draft upholds the current ban on crypto payments for goods and services, sets a cap on the amount of rubles that people can invest in cryptocurrencies, and defines what it means to mine cryptocurrencies.

Finance Minister Anton Siluanov said in an interview that he hopes the regulations will be

passed into law by the end of the year.

Russia's cryptocurrency market was valued at over $200 billion in early February — about 12% of the global market. According to the Russian government, $5 billion in transactions are conducted using cryptocurrencies every year in the country, and its population of 144 million owns about $26.5 billion worth of crypto in over 12 million cryptocurrency accounts.

The country also has the world's third-largest cryptocurrency mining industry, behind the United States and Kazakhstan.

"After the Chinese ban of Bitcoin, the mindset and mood of the majority of Russian authorities became increasingly positive towards open source software and Bitcoin mining in particular," says Thomas Galovich, the Investment Director of BitCluster, one of the largest bitcoin mining companies in Russia.

"Russia is uniquely positioned to serve crypto miners due to its excess of cheap electricity, cold climate that reduces demand for cooling systems, and reliable electricity grid."

The draft proposal comes after five years of mixed messages from the Russian government. On Jan. 20, the Central Bank called for a total ban on cryptocurrencies in Russia, comparing them to a financial pyramid scheme that "might collapse" and blaming mining for the "unproductive consumption" of energy.

On Jan. 25, Finance Ministry official Ivan Chebeskov came out in opposition to the ban, prompting Russian President Vladimir Putin to publicly call for a compromise. Putin acknowledged the risks of investing in cryptocurrency, while saying that the Central Bank will not stand in the way of "technical progress" and citing Russia's "competitive advantages" in cryptomining.

Last week, Finance Minister Anton Siluanov spoke out for the first time, comparing the Central Bank's proposal to ban crypto to "banning the internet" in an interview with Forbes. The same story quoted an anonymous source saying the FSB has lobbied the bank in favor of the crypto ban, partly because it allows people to secretly fund organizations labeled as "foreign agents."

The Finance Ministry and Russia's Central Bank have publicly been at loggerheads on how to approach cryptocurrency regulations, leading to anxiety among the professional crypto community. They have thus far failed to reach consensus, with the Finance Ministry pursuing a more lenient regulatory approach and the Central Bank taking a harder line.

The Central Bank submitted its own proposal to the Finance Ministry on Friday, which reportedly includes a ban on the issuing and circulation of private cryptocurrencies, with a fine of 30-50,000 rubles ($380 - $640) for individuals and up to 1 million rubles ($12,800) for legal entities who violate that ban. It also proposes a new ban on the advertising of cryptocurrencies. In a press release, the Finance Ministry wrote that the "proposals received from the [Central Bank] will be taken into account in further work on the draft law insofar as it does not contradict the approaches of the Russian Finance Ministry."

A July 2021 law gave cryptocurrencies legal status and banned crypto payments for goods and

services. It also included a controversial clause saying undeclared cryptocurrency assets cannot be protected in court, and stated that the circulation and issuing of cryptocurrencies should be regulated. But those regulations haven't yet materialized, leaving many in the crypto industry operating in a legal gray area.

"We have repeatedly seen statements [on regulation] by senior officials from the Central Bank, the Finance Ministry, the Economic Development Ministry, Sberbank, law enforcement agencies, the FSB and the Interior Ministry," says Artem Kozlyuk, the head of privacy NGO Roskomsvoboda.

"Those departments, by the way, change their positions over time," he added.

People in the cryptocurrency business trying to follow the laws and pay taxes on their earnings said the inconsistency is difficult to navigate.

Mike Bystroff (Tretyak), a law partner at the Digital Rights Center handling fintech and crypto practice, said he has been fielding worried calls from clients unsure about how to declare income from cryptocurrencies every day for over a year.

"It all depends on the local tax authority, because while some will accept what you fill out in the form, some won't," he said.

"There is still no separate reporting form for income received from crypto transactions, and no changes have yet been made to existing tax reporting forms."

Central Bank head Elvira Nabiullina, who has taken a hard line against crypto, has emphasized the risks associated with it. In a Feb. 11 press conference, she talked about the threats posed to individual investors and the potential for crypto payments to fund black market goods.

"We need to do everything possible to reduce that risk," she said.

Nabiullina's warnings about threats are supported by recent stories in Russian media on the rise of crypto-wallet thefts and illegal mining via NFT tokens.

On Tuesday, the Central Bank said it is moving forward with the development of a peer-to-peer digital ruble. Three Russian banks have successfully piloted digital ruble transactions on their mobile banking apps. While the digital ruble is technically a digital financial asset (DFA), it is not a cryptocurrency and it is not built on blockchain technology.

"When you throw out the blockchain, you throw away the means of recording transaction history, which means that you can alter the transaction history," said Bystroff. "You can delete it or you can alter it, or you can even red flag certain transactions at your discretion."

The guidelines released today were the latest attempt in a years-long effort to reach some kind of legislative consensus.

Alexey Arkhipov is a blockchain expert and founder of multiple blockchain-based startups. But he hasn't invested in any cryptocurrencies himself, despite seeing its potential as a growing market.

“I'm waiting for some official way to do that,” he said. “I think that any regulatory approach which will be clear, will be helpful.”

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