

Client Update

Cryptocurrency in Russia: A Regulatory Framework on Its Way

On October 10, 2017, Russian President Vladimir Putin instructed the government of the Russian Federation and the Bank of Russia (the “CBR”), the primary regulator of the Russian financial market, to adopt a legislative framework for cryptocurrency by July 2018. The legislation will address, among other matters the status and role of cryptocurrency in relation to the Russian ruble, which is the only official means of payment in Russia, and the regulatory framework for:

- blockchains;
- cryptocurrencies and other crypto tokens;
- smart contracts;
- initial coin offerings (“ICOs”) and mining; and
- related taxation.

President Putin acknowledged cryptocurrency’s potential to become a means of payment and to provide an investment opportunity, but noted certain associated risks, including money laundering, tax evasion, financing of terrorism and fraudulent schemes, which have continually been mentioned by the CBR. According to President Putin, those risks should not lead to a ban on cryptocurrency, but should be addressed by law.

The CBR, the Ministry of Finance (responsible for tax and currency issues), the Federal Service for Financial Monitoring (responsible for anti-money laundering and financing of terrorism enforcement) and the State Duma are working in their respective spheres of responsibility to fulfill the instructions of the President by developing a bill regulating cryptocurrency.

Based on publicly available information, the following is a summary of the main aspects of the proposed regulatory framework:

- **Special status:** Russian regulators generally share the view that cryptocurrency and other crypto tokens are not securities, currencies or commodities. They may be qualified as

“digital products” or “other property”, and as such receive a special status and be regulated accordingly.

- **Special trading platform:** There is no consensus among regulators on the platform on which cryptocurrency can be traded. The Ministry of Finance prefers to permit such trading only on a stock exchange and may impose a licensing requirement on an exchange to convert cryptocurrency into fiat currency. On the other hand, the State Duma prefers the trading of cryptocurrencies on specialized platforms (although no details on their nature have been provided) and, in general, is against excessive regulation of such platforms.
- **Authorized participants:** There is also no consensus among regulators on who will be permitted to participate in cryptocurrency trading in Russia. The State Duma prefers to permit any legal entities and individuals to trade cryptocurrency on specialized platforms. The Ministry of Finance, however, prefers to limit participants to qualified investors (banks, insurance companies, brokers, etc.). Some sources suggest that the Ministry of Finance would agree to permit the purchase of cryptocurrency by individuals, provided that the purchased amount is limited to a certain sum, possibly in the range of 100,000 to 600,000 rubles (approx. USD 1,694 to USD 10,169).
- **Mining:** The Ministry of Finance proposes to permit mining only by legal entities and to require registration of such entities.
- **AML:** The bill will establish anti-money laundering requirements for cryptocurrency operations, including KYC procedures, record keeping and ongoing monitoring of cryptocurrency transactions.
- **ICO:** ICO aspects may be covered in a separate piece of legislation after all other issues related to cryptocurrency are settled. It is likely that ICOs will be regulated similarly to IPOs.

* * *

Please do not hesitate to contact us with any questions.

NEW YORK

Byungkwon Lim
blim@debevoise.com

MOSCOW

Dmitri Nikiforov
dvnikiforov@debevoise.com

Anna V. Maximenko
avmaximenko@debevoise.com

Elena Klutchareva
emklutchareva@debevoise.com