

## **Каково будущее криптовалют в России?**

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### **Аннотация**

Статья рассказывает о криптовалютах. Статья исследует такие темы как возникновение биткоина, его преимущества и недостатки и отношение разных стран к этой валюте и сопутствующим технологиям. Статья также описывает как Российское правительство пришло к решению легализации криптовалют в стране, особенно биткоина.

**Ключевые слова:** биткоин, первичное размещение монет, блокчейн, законодательное регулирование.

## **What is the future of digital currency in Russia?**

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### **Annotation**

The article covers the topic related to the digital currencies. It examines such questions as the emergency of bitcoin, its benefits and disadvantages and the approach of different countries to bitcoin and related technologies. The article also shows how Russian government decided to legalize and regulate digital currencies in the country, especially bitcoin.

**Key words:** bitcoin, ICO, blockchain, legal regulation.

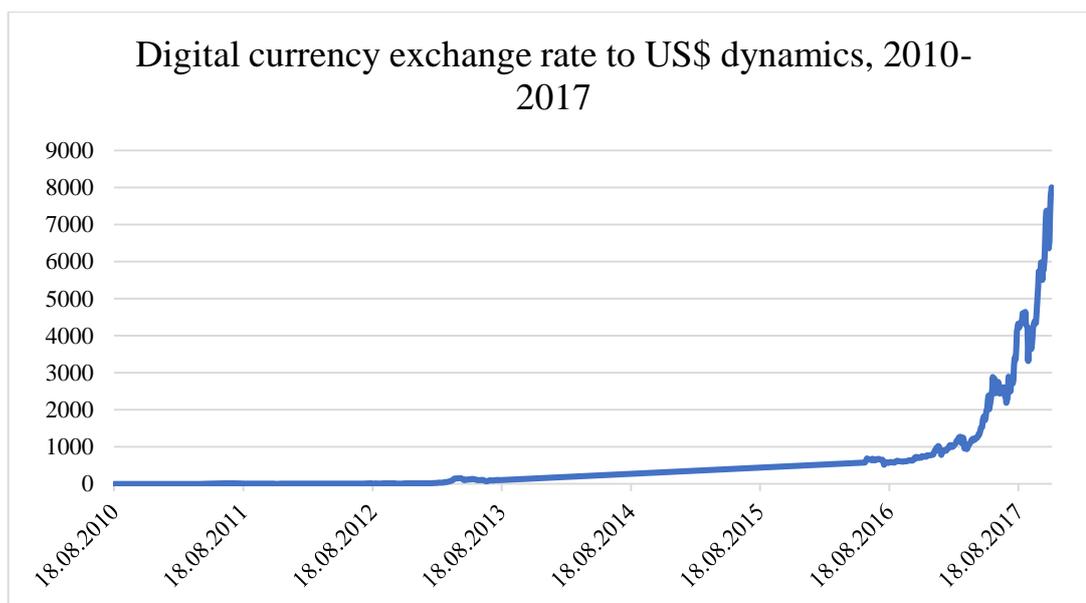
Nowadays the popularity of digital currencies, especially bitcoin, is extremely high. Not only businesses, but ordinary people accept its convenience and perspective: today bitcoins are used not only to raise funds for start-ups, but in some territories even to pay for goods and services. Many people are predicting bitcoin to become a financial future of the whole world.

The history of digital currencies began in 2008, when an anonymous group (or an individual, this fact is still unknown and unproved) called Satoshi Nakamoto announced that they were working on the creation of a unique currency system. In January 2009, Satoshi Nakamoto presented the first version of the bitcoin wallet and organized the launch of the system.

The basis for transactions with a new electronic money system was blockchain. The creators of bitcoin have developed a database that stores all ever-committed transactions in the form of publicly available information. A special mathematical algorithm connects the blocks to each other, so that changing the contents in one of them will lead to making changes in next block, and then in the whole chain. The stable work and functioning of the whole blockchain system was organized by so called “miners” — people who were creating new blocks by recorded transaction. The mining process, so named by analogy with mineral extraction, requires solving some complex mathematical problems, so miners need to use powerful computing programs to specially equipped computers. For each block created, they received a reward in the form of a commission from the transactions and the mining difficulty was automatically adjusted every two weeks depending on the total number of blocks created during this period. Today the mining process has become very complex.

With the launch of the whole system, they also published an article describing the technology and software code. It is still unknown who hides behind Satoshi Nakamoto name. Reporters tried to reveal the identity of the mysterious creator of bitcoin, but so far, these attempts are pointless. The advantages of new currency were independency from any government or banks, the ability to use it anonymously, the protection from fraud and inability to track down not only the identity of a person who made a transaction, but also their location and purpose of transaction.

Initially, the turnover of bitcoin was very low, as well as the exchange rates (Picture 1): the participants of this unique technology could get one American dollar having 800-1500 units of bitcoin. At the same time, people who were interested in mining could communicate with each other on a special web forum. On the forum, the first purchase with bitcoin was announced – someone bought two pizzas for 10 thousand bitcoins. In February 2011, the exchange rate increased to 1 US\$ per 1 bitcoin.



**Fig. 1. Digital currency exchange rate to US\$ dynamics, 2010-2017, US dollars**

The changes in the value of bitcoin from 2011 to 2014 is very similar to a roller coaster. After increasing by several times, the price then dropped by 70% and even by 90%. The year of 2012 was marked by a series of hacker attacks. Many holders of bitcoins stated that their wallets were empty because of these attacks. In 2013, the world of cryptocurrency was influenced significantly by two events. Firstly, Mt.Gox (Mount Gox), Japanese bitcoin exchange which was a part of three largest crypto currency exchanges by trading volume in bitcoin, announced its problematic situation and later filed for bankruptcy, resulting that traders have lost all of the funds that were kept in the accounts of the exchange. Then there was a great scandal connected with the web site called Silk Road, where anyone could buy illegal goods such as drugs and weapons with bitcoins. This caused a serious mistrust to blockchain and almost damaged the image of cryptocurrencies. The main benefits of the technology at those times were seen as disadvantages.

In the same 2013, there was another significant event in the history of bitcoin – initial coin offering (ICO). ICO is a type of attraction of investments in the form of a sale of a fixed number of digital currency to investors received from a one-time or accelerated emission. ICO is named similarly as IPO (initial public offering). The first ICO could earn 5 million US dollars [4].

Years have passed, bitcoin had its bad days, but today the exchange rate is fantastic, especially to those who had serious doubts to this system. The law of supply and demands significantly influences the exchange rate of bitcoin. Some years ago, people could get dozens of bitcoins using their computers, today because of high exchange rates and value of bitcoin they could get a hundred-thousandth part of a coin.

Some people have already appreciated the economic value of bitcoin; however, some financiers still do not believe in its sustainability. For instance, recently Warren Buffett said: “People

get excited from big price movements, and Wall Street accommodates”, adding that bitcoin is “a real bubble” [5]. Consequently, in different countries the attitude to digital currency, especially bitcoin, is very different. In a number of countries, bitcoin transactions are officially authorized. Usually they are treated as commodities [6] or an investment asset and for tax purposes digital currency is a subject to relevant legislation. In many countries, the status is still not defined or is changing regularly. Let us discuss the worldwide opinion on bitcoin on the examples of such unions and countries as the European Union, the USA, Japan, China and then turn to the Russian Federation.

In Europe in 2015, the European Court of Justice ruled that exchanges of bitcoin for fiat currency are exempt from VAT (value added tax). The court's decision clarifies that the law on VAT is applied to the provision of goods and services. Transactions in bitcoin were attributed to payment transactions in currencies, coins and banknotes, and therefore not a subject to VAT. The court recommended that all member countries of the European Union should exclude cryptocurrencies from the list of assets which are subject to taxation [7]. In 2016 the European Parliament's proposed to set up a taskforce to monitor virtual currencies to combat money laundering and terrorism. The European Union had not rejected the idea of bitcoin itself, though it also did not accepted bitcoin legally.

Before that, at the end of August 2013, Germany's Ministry of Finance made the statement that bitcoin cannot be classified as an electronic or foreign currency and perfectly fits the definition of private money [8]. Although at the same time, the Swiss Parliament has proposed a postulate, according to which the bitcoin should be treated as foreign currency. In Norway, the bitcoin is recognized as an exchange asset, but is not recognized as currency [9].

In the USA in 2014, the Internal Revenue Service issued guidance on the taxation of transactions with bitcoin and other digital currencies. Bitcoin is considered as property for paying federal taxes, that means those who buy bitcoins as an investment tool would claim their profit as from "capital gain" and not as profit from "foreign exchange gain".

In May 2015, the cryptocurrency exchange ItBit Trust became the first formally regulated bitcoin exchange [10]. Later, in autumn 2017, the USA Securities and Exchange Commission (SEC) filed the first ever case of fraud at ICO.

The situation on bitcoins in Japan developed through a different scenario: bitcoin investors were shocked by collapse of the cryptocurrency exchange MtGox in 2014. The government has postponed plans to regulate cryptocurrency trading and announced the intent to control illegal activities with bitcoin. In February 2016, the government has approved a bill that defines bitcoin as legal means of exchange. In such a way Japan has become the first country which approved bitcoin legally.

The path of digital currency in China also was not similar to ones in the European Union or the USA. On December 2013, the People's Bank of China prohibited Chinese financial companies to carry out bitcoin transactions. The statement indicated that bitcoin is not a currency in the real sense of the word. Financial companies are prohibited not only to conduct bitcoin transactions, but also to public quotes or insure financial related products with bitcoin. At the end of March 2014, the People's Bank of China issued a circular, according to which Chinese banks and payment processors must close the accounts of fifteen Chinese websites that had sold bitcoins. Disobedience would be punished, but the People's Bank of China did not specify how [11].

As we can see, the picture in the countries mentioned above is quite similar to each other (except for China): initially bitcoin and ICO are seen as doubtful activities which are used mostly in illegal deeds like drugs distribution, but later countries have realized that bitcoin should be not prohibited, but be regulated. Today governments are looking democratically on bitcoin: they are creating favourable conditions to its development and providing guarantees to investors.

The situation in Russia is unique: Russian government did not have certain opinion on digital currency until recently. The possibility of digital currency prohibition has been discussed until the middle of 2017. In 2014, Alexey Moiseev, Deputy Minister of Finance, stated that digital currency, namely bitcoin, is a surrogate currency and it should be prohibited legally [12]. At the same time, Gosnarkokontrol, a state agency aimed to prevent drugs distribution, stated that bitcoin is an extremely risky currency since it is often used to realize payments for drugs. In 2015, according to the National Agency for Financial Studies (NAFS), the idea of prohibition was supported by 40% of Russians. Despite this, a bill banning the digital currency and its transactions was not introduced to the State Duma. During the years of 2014-2016 Roskomnadzor has blocked several websites about blockchain and bitcoin. Such an idea of prohibition was replaced by the idea of regulation of digital currency relations. At the same time, the opinion of Russian citizens has also changed: by those times only 20% of the population supported digital currency prohibition. This decision was followed by numerous statements of different approach to bitcoins by famous Russia economists and financiers. For instance, German Gref said: “Cryptocurrency is a very interesting international experiment that breaks the paradigm of currency issuance. And it definitely should not be banned, but we should try to understand it, to learn and maybe to start regulate it properly” [13]. The President of the Russian Federation, Vladimir Putin, also assumed that digital currency is risky, but should be examined thoroughly.

Until 2017 the situation has been changing rapidly and today we can confidently say that bitcoin is not prohibited in Russia, however, it still cannot be used as a mean of payment or be changed into Russian roubles. It is controlled by such organizations as FATF (Financial Action Task Force)

and Rosfinmonitoring since bitcoin is often used in actions aimed at money laundering and financing terrorism. The Central Bank issued a warning that citizens should be more careful in operations with bitcoin since it is often involved in illegal activities. Moreover, in October 2017, an initiative group presented by Russian specialists on blockchain and digital currency has made its proposals for regulation of cryptocurrency in the form of a draft of federal law "On regulation of decentralized virtual property". It remains unknown what law will be accepted, when it will happen and whether digital currency will be officially legalized. Moreover, many experts claim that it is a really difficult situation in question of regulation: because of its anonymity, bitcoin is difficult to be tracked or regulated according to anti-money laundering standards.

Despite all these facts, the popularity of bitcoin in Russia is growing rapidly: the volume of venture investments in Russia decreased two-fold because of the growth of ICO market. As reported by RBC with reference to General Director of "SKOLKOVO Venture investments" Vasily Belov, from the beginning of 2017, ICOs in Russia managed to collect about \$293 million, while attracted venture capital for the entire year of 2016 does not exceed the level of \$128 million.

From this point of certain uncertainty and increasing popularity of bitcoin, we now can speak about the future of digital currency in Russia. Russia can choose between three options: firstly, it can observe other countries' experience, take best practices and then implement its own approving legislation and regulation standards on bitcoin; secondly, it can follow China and prohibit bitcoin; and thirdly, Russia may not prohibit bitcoin legally in such a manner, define what bitcoin and ICO in terms of taxation is, but also do not approve it legally. The last option was chosen by such countries as the USA and most countries of the European Union. The position of the Central Bank of the Russian Federation can be described by its uncertainty whether or not digital currency affects rouble as national currency. Moreover, bitcoin may undercut the Central Bank's position as a participant of money market.

Today it has become obvious that Russia had already chosen the first option. The President Vladimir Putin has given orders to develop a draft plan of law on bitcoin and ICO regulation until June 1, 2018. Initial coin offering should be regulated by analogy with initial public offering, while the government should also develop regulative measures to digital currency mining. Miners should have mandatory registration, and their activities will be taxed, however, specific figures on taxation are not yet known. The government assumes that bitcoin may also be regulated by approving certain amendments in laws that already exist.

In conclusion, we would like to emphasize that the future of bitcoin in Russia is still unpredictable: with unstable Russian economy, everything can change suddenly. Still it is a positive sign that Russian government is aiming to define legal status of bitcoin, blockchain and ICO in the

country meaning that Russia do not want to stand behind its partners. Most of economists and experts in the country assumes that bitcoin has its benefits, but also disadvantages that should be regulated and controlled strictly. Today Russian policy on bitcoin and other digital currency is more than acceptable.

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