

Introduction of draft law “On digital financial assets” and amendments to the Civil code of the Russian Federation to the State Duma of the Russian Federation

April 18, 2018

Dear Colleagues,

We would like to inform you of the proposed amendments due to introduction to the State Duma of the Russian Federation of the draft federal laws aimed at establishment of legal framework for circulation of cryptocurrency and raising of investment capital by legal entities and individual entrepreneurs via issuance of tokens (ICO (Initial Coin Offering)), which are considered digital financial assets.

Draft law “On Digital Financial Assets” was elaborated upon instruction of the President of the Russian Federation Vladimir Putin, following the meeting devoted to use of digital technologies in financial sphere, and introduced to the State Duma of the Russian Federation on March 20, 2018.

The draft law defines “cryptocurrency” and “token” as digital financial assets, i.e. as property created in electronic form using cryptographic devices. Information on such property is stored in digital wallets being hardware and software devices.

Please note that activity of digital financial assets’ exchange operator, who will exchange digital financial assets for rubles or foreign currency will also be regulated. It should be noted that in accordance with the draft law activity of such operators is subject to licensing (license of professional participant on securities market or license of trade organizer is required). Therefore, pursuant to the current version of the draft law, activity of foreign legal entities acting as operators may be conducted only subject to establishment of a Russian legal entity in the territory of the Russian Federation and obtaining of license.

The draft law specifically regulates the procedure of issuance and circulation of tokens. We believe that this was done in order to provide protection to investors and the existing economic relations. Respective articles of the draft law establish the procedure of tokens issuance, and stipulate that tokens are issued on the basis of a public offer containing the information specified in the draft law. Same to issuance of securities, issuers of tokens will be obliged to disclose information both in the public offer and the investment memorandum, which must also conform to the requirements of the draft law.

We would also like to pay your attention to provisions concerning mining. Although the draft law does not regulate all issues associated with mining, it defines mining as activity aimed at creation of cryptocurrency and / or validation in order to receive remuneration in form of cryptocurrency. Based on the draft law mining may be considered entrepreneurial activity only subject to specific conditions (if during three months the person exceeds energy consumption limits established by the Government of the Russian Federation).

It should be also noted that the changes will be implemented by amendments to the Civil Code of the Russian Federation (hereinafter – **the Civil Code**) in a parallel with enactment of new laws. The draft law

“On Introduction of Amendments to Parts One, Two and Four of the Civil Code of the Russian Federation” was introduced on March 26, 2018.

Among other things, the draft law proposes to introduce to the Civil Code basic terms and general rules that may serve as basis for more specific and detailed regulation of existing objects of economic relations. Mainly provisions of this draft law relate to the introduction of definitions of “digital law” and “digital money”, which, according to the basic rule, cannot be regarded as means of payment (ruble is an official currency in the Russian Federation). However, authors of the draft law do not exclude that in future “digital money” may be used, up to certain amount, as means of payment by individuals and legal entities.

Notwithstanding that the draft laws were introduced to the State Duma of the Russian Federation and are now being under review, we do not exclude the possibility that the text of the draft laws will be sufficiently changed in the process of their discussion.

We hope that you will find useful the information provided. Please note that ALRUD law firm provides services in relation to Financial Technologies sector and will be glad to assist you on, including but not limited to, the following matters:

- (A) advising on general regulatory issues associated with blockchain technology, cryptocurrency and tokens in the territory of the Russian Federation, including requirements imposed on the participants of cryptocurrency market (including licensing matters) and compliance with AML laws in the cryptocurrency market;
- (B) advising on tax matters associated with cryptocurrency and tokens;
- (C) drafting and commenting contracts of sale and purchase of cryptocurrency and documentation for tokens issuance (ICO);
- (D) advising on crowd funding related issues.

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Kind regards,



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