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Digital Bridges To Bypass Sanctions And Stablecoin Risks

Is it safe to bypass sanctions with the help of stablecoins, how would settlement mechanisms perform under the BRICS, would cryptocurrencies be adopted in Russia and what are the digital rouble prospects – we discussed these issues with Albert Pavlyuk, assistant professor at MGIMO State Management Department, PhD in Law.

Our Central Bank has been reluctant to recognize cryptocurrencies as a settlement instrument and to treat it as money for a very long time. Due to the introduction of sanctions against Russia and the resulting foreign trade issues, cryptocurrencies have turned out to be an effective way to hurdle obstacles, and the attitude of the CB towards the instrument has changed. Could cryptocurrencies gain official recognition in Russia?

Despite the CBR statements that it is changing its attitude and is ready to make concessions, by now we haven't seen any real move in this direction. On February 29, 2024 the Central Bank published a letter, where it pointed out it would not recommend not only to banks but to any and all financial organizations to engage in any activities that could enable operations with digital currencies. At present various forums are hosting discussions with the CB, which, on the one hand, says that it sees prospects for digital currencies, and on the other hand does not take any effective steps. For example, initially there was an approved version of a draft law to set up a special legal regime for cryptocurrencies, under which anyone involved in foreign trade, who

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feels like it, could register with the CB and get the right to make payments in cryptocurrencies to foreign countries and receive such payments from abroad. But, despite this huge initial leap, the draft law has been struggling to pass the first reading for four months. Approval process is still underway and there is no go-ahead from the Central Bank to move on. This is the first issue.

The second issue is that it is the Central Bank which is authorized to manage this special legal regime for a special experimental zone. This does not seem to be very correct to me, because there is only one institution in the Russian federation that is against cryptocurrencies – it is the Central Bank, and putting it in charge of regulating cryptocurrency operations is inappropriate due to this controversy.

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Could this position of the Central Bank be related to a preparation of a broad use of the digital rouble as an alternative to the existing cryptocurrencies?

Yes, this is exactly what they assume. I suppose, we are implementing the same plan they had in China. It was China that initially promoted blockchain and cryptocurrencies, and also manufactured huge amounts of mining equipment. And then, in

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order to support the digital yuan, the Chinese authorities in one day banned anything related to decentralized cryptocurrencies, thus ousting the industry into a gray zone. The digital yuan became a primary digital asset in China. It seems like Russia is moving in the same direction.

Could the existing cryptocurrencies be used under the BRICS, or will the BRICS create their own digital currency?

Talks on establishing a BRICS currency have been going on since 2018, but there were no major achievements in this area. As I see it, prospects for development of this currency are next to nothing. Most likely, settlements within the BRICS will go through central bank digital currencies (CBDC). Let me explain, why it would be impossible to use the existing cryptocurrencies.

At present almost all trades in the world of cryptocurrencies are carried with the use of two stablecoins: USDT and USDC. A stablecoin is a currency tied to a specific indicator. The two abovementioned currencies are pegged to the dollar exchange rate. When a dollar goes up by one kopeck, the rouble equivalent of these currencies will grow accordingly. A stablecoin could be pegged not only to the dollar, but to any other resource, for example, to gold. Specifically, USDT is issued by Tether corporation, and it charges a very modest transactional fee, this is why everyone likes trading in this currency. However, this cryptocurrency carries serious risks. Tether could block USDT anywhere in the world in any crypto wallet. And despite the fact that Tether is not an American project, the corporation still reports to the US Securities and Exchange Commission: the corporation will comply with any instructions of the American authorities.

Why is this project of interest still? Even if tomorrow we take someone to court in the Russian Federation and a court would rule to block an account, we could send this ruling to Tether and they would block this account. I.e. here it’s not about any decentralization (the primary appeal of cryptocurrencies). All USDTs are strictly controlled, unlike regular electronic money. If electronic money is transferred somewhere, there is nothing you can do about it; there is not an easy way to get it back.

Moreover, the above stablecoins operate on an open blockchain: any transactions are visible to anybody. If our opponents see that a crypto wallet belongs to a company that, for example, supplied sanctioned aircraft parts to Russia, and a Russian company paid for them in USDT, then this wallet will be blocked. On the one hand, blockchain transparency provides control options, but on the other hand it is not always to the benefit of sanctioned countries and subjects. This is why it is very dangerous to use USDT, just like any other third-party stablecoins, in foreign trade. Your money in your wallet could be blocked at any second.

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In this regard there was a discussion at the BRICS on development of its own stablecoins. But in this case there is this next issue – available liquidity. If USDT could be sold and bought anywhere in the world, then it would be impossible to sell or buy our stablecoin anywhere else.



Are those Russian companies, that are using USDT now, aware of the abovementioned risks?

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There are mechanisms allowing to hide transactions. Wallet owners remain undisclosed. This will be possible until cryptocurrencies stay in the gray legal area. So for now it is quite hard for our ill-wishers to track such transactions. By the way, the previously mentioned Russian draft law specified the necessity to disclose to the CBR the owners of all crypto wallets and all transactions, involved in the test. We understand that these data may become available to our adversaries. Probably, this is the reason why regulations in this area are still suspended. If all aspects are comprehensively regulated, then it may be easier for foreign intelligence services to track our financial flows.

Then why the digital rouble isn't actively introduced as an alternative?

Let's dive into history. Initially central banks were of the opinion that anything related to cryptocurrencies was very bad: drugs, kidnapping, contraband… Then the position began to change and central banks started developing their own digital currencies. Our Central Bank created the digital rouble, which is no different from any other stablecoins, similar to USDT, with the exclusion that the issuer here is the CBRF: in both cases blockchain and cryptocurrency issue are done by the same issuer. The only difference is that for the digital rouble all transactions will be visible only to the Central Bank.

The digital rouble has been in development since 2020, and it is planned for use in trade with the BRICS countries. Other countries are also developing their own CBDCs. All these currencies are now being tested and refined. The cutoff date for many countries is the year of 2025, when these currencies will be implemented "for real". Further down the road it is planned to build the so-called bridges. A bridge is a link between various blockchains to transfer, for example, digital roubles into the digital yuan blockchain with relevant conversion. And this format would make international trade within the BRICS possible. It would be a hundred times easier to implement this mechanism than to create a new intermediate currency, which is being discussed in the BRICS.

While building those bridges, are there any risks which could be set up for us by the Western adversaries?

There are two threats exactly. The first threat is countersanctions against, for example, Brazil, if the USA start banning use of these technologies in total street thug mode. The second threat is hackers which could attack our servers and blockchains, on which CBDCs are built. But I think, we are preparing for this and security measures will be taken. And if this work is performed in advance, then there would be no sense in attacking blockchain. And our servers will be securely protected.

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