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FINANCIAL CONTROL IN THE DIGITAL CURRENCY SYSTEM OF THE RUSSIAN CENTRAL BANK

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Abstract

Digital currencies of Central Banks are at the focus of central banks in most countries of the world. Their emergence is due to the qualitative transformation of the payment infrastructure as a result of the active penetration of digital technologies. The emergence of alternative payment instruments, such as digital assets and cryptocurrencies, has led to the need to change the financial paradigm of states. Central bank digital currencies represent a new third form of money. The Central Bank of Russia is also among the mega-regulators actively developing digital currency. In a report for public consultation issued by the Central Bank of Russia it is noted that the regulator defines the digital ruble as an additional form of national currency issued in digital form. It is assumed that all three forms of the Russian ruble (cash, non-cash and digital) will be absolutely equivalent. Meanwhile, the models proposed by the Central Bank of Russia for the introduction of the digital ruble are associated with significant risks. A special place among them is the creation of effective financial control mechanisms. The paper is based on the analysis of analytical reports, articles and explanations of leading central banks on the problem of introducing digital currencies of central banks. The author defines effective methods that can neutralize these risks and ensure the creation of an effective infrastructure for the digital ruble.

Keywords: CBDC, digital innovation, digital currencies of the Central Bank, financial control, financial monitoring

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1. Introduction

Financial services in one form or another penetrate into all spheres of human activities. In modern conditions, without the use of financial services, it is impossible to develop production, mining, transport, trade, science, health care, and the social security system. Due to the use of financial services, both financing of private entrepreneurship and the implementation of government programs are implemented. Using financial services, citizens get the opportunity, on the one hand, to maintain and increase their savings, turning into investors. On the other hand, using the mechanisms of the financial services market, people have the opportunity to take out loans for the purchase of housing and education. Entrepreneurs, due to the attraction of investments, have the opportunity to develop production.

A financial service is an activity of attracting and using funds from individuals and legal entities. However, not all such services are subject to antimonopoly regulation. (Ministry of the Russian Federation for antimonopoly policy and support of entrepreneurship, 2000). Controlled financial services include all types of banking operations and transactions, insurance services, management of securities and monetary funds, non-state pension provision, the acquisition of property and its lease to legal entities and individuals (leasing).

In accordance with the current legislation, financial services are implemented in the form of cash and non-cash payments, but recently there has been a need to introduce other, more modern and efficient forms of payments in digital format. Market participants are drawing attention to the need to issue a central bank digital currency (CBDC), and the Bank of Russia plans to publish the concept of a digital ruble in the first quarter of 2021.

The Consultation paper issued by the Central Bank of Russia (Central Bank of Russia, 2020) notes that the regulator defines the digital ruble as an additional form of national currency, issued digitally. It is assumed that all three forms of the Russian ruble (cash, non-cash and digital) will be equal. In addition, the new tool will be able to combine the properties of non-cash funds (remote payments and online settlements) and cash rubles (can be used offline).

Similar studies are currently being conducted by the Central Banks of most of the leading countries in the world (Zetzsche et al., 2020). Thus, according to a survey conducted by the Bank for International Settlements, studies on digital currency issues is underway in four out of five central banks, 40% are conducting a concept check, and 10% of pilot projects have already been launched (Boar et al., 2020). In January 2020, the European Central Bank (ECB), Bank of England, US Federal Reserve, Bank of Canada, Bank of Japan, as well as the Central Banks of Sweden and Switzerland, along with the Bank for International Settlements (BIS), created a working group to study the problem of digital currency of central banks, at the beginning of October, the research group prepared a special report that presents the fundamental principles and key characteristics of digital currencies of central banks (Bank for International Settlements, 2020). Researchers around the world are confident in merging due to the monetary system technology and digital payment infrastructure into a single system (Didenko et al., 2019).

The creation of the digital ruble can be considered an already resolved issue, at the same time, the successful implementation of the third form of money is associated with the need to solve a number of issues related to the creation of a new architecture for the normal functioning of the digital currency and ensuring the operation of financial monitoring mechanisms. In this regard, the study of the problems of the

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implementation of financial control mechanisms in the digital currency system of the Central Bank of Russia is very timely and necessary.

2. Problem Statement

Discussion of the report, published by the Central Bank, became a kind of catalyst for widespread discussions in the banking community. Representatives of the banking community reacted ambiguously to the proposed innovation. The new form of payment will require a significant transformation of the business model of working with clients. In addition, the mechanism of financial reporting to the regulator will become much more complicated and, ultimately, new threats to financial security will arise. According to the calculations of Sberbank of Russia, ensuring the cyber stability of the digital currency will cost 20-25 billion rubles (RBC, 2020). Thus, when creating the infrastructure of the digital ruble, the problems of ensuring the cybersecurity of the banking sector come to the fore. It is also important to solve the problem of a potential outflow of liquidity from credit institutions, to organize financial control and supervision in a new segment of the financial system.

3. Research Questions

The digital ruble will be a unique digital code, with the help of which calculations can be implemented both online and offline. This circumstance presupposes a search for an answer to a number of key questions. Firstly, how will the architecture of the digital ruble system be built? What role will banks play in it? What is the fundamental difference between the digital ruble and other digital assets such as cryptocurrencies? How will the financial control be organized for the digital ruble turnover? Will the anonymity be preserved during its circulation?

4. Purpose of the Study

Among the main requirements for the digital ruble is the coexistence with cash and non-cash money within a flexible and innovative payment system. In addition, the introduction of the digital ruble should be as painless as possible for the payment infrastructure. The purpose of this article is to determine the prospects for the introduction of the digital ruble. Based on the study of analytical reports published by central banks on the topic of digital currencies of central banks, the author highlighted the key risks. These risks require resolution at the stage of discussion and creation of the concept of the digital ruble. The author pays special attention to the problem of ensuring financial monitoring during the circulation of the digital ruble. Special attention in the study is paid to the role of credit institutions and how their functionality will change when the digital ruble is introduced.

5. Research Methods

When preparing a scientific article, analytical reports, articles and explanations were analyzed on the problem of introducing digital currencies of central banks. The main methods of this study are the descriptive method, methods of observation, interpretation, comparison and generalization. In addition,

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theoretical methods of analysis, synthesis, induction, deduction and classification, the method of content analysis were used. The method of content analysis used in this work made it possible to identify the main concerns in the professional community regarding the introduction of the digital ruble. In preparing the study, an analysis of interrelated provisions from scientific works on similar or overlapping topics was also carried out. The widespread use of various methods in the work makes it possible to reasonably suggest that its content will be relevant for the scientific community. The conclusions and recommendations made in the work can be used in building the doctrine of legal regulation of the digital ruble.

6. Findings

A significant part of the financial market participants approve the feasibility of issuing the Central Bank's digital currency (CBDC), since the possibility of using the digital ruble online and offline will open up opportunities for the development of remote payments and settlements, the digital ruble will be used simultaneously with cash rubles, and will be freely converted from one form to another, as well as in the future it will be able to be used for cross-border transfers, which will significantly expand money circulation.

Meanwhile, the joint Report of the European Central Bank (ECB), Bank of England, US Federal Reserve, Bank of Canada, Bank of Japan, Central Bank of Sweden and Switzerland along with the Bank for International Settlements (BIS) (Bank for International Settlements, 2020) highlights a number of key risks, such as a potential disintermediation of banks, the need to protect monetary sovereignty, ensuring a balance in the financial system when building a new architecture in the payment system.

The Central Bank of Russia, in turn, highlights many advantages of the new form of currency. Thus, according to the regulator, citizens will be able to use digital currency more quickly and safely, while it can be used offline and regardless of the bank where the user is served. The regulator believes that the new form of currency will increase the transparency of cash flows and strengthen financial control in the implementation of government contracts and other cash flows from the state to private entities (Central Bank of Russia, 2020). The regulator also notes the convenience of payments and a decrease in the charges of the total cost of transactions for all participants of the system, due to the possibility for developing remote payments and settlements, and in the future, to stimulate the development of a system of fast payments.

The Central Bank of Russia suggests equating the digital currency with the Russian ruble, the emission of currency will be carried out exclusively by the Central Bank, while the digital ruble will be assigned a unique digital code. The regulator plans to use a hybrid model to launch the digital ruble - an IT platform that combines a blockchain and a centralized platform.

The model seems to be the most considerable in terms of financial control, in which the Central Bank of Russia, as the issuer of the digital ruble, will open special accounts for digital currency to the banks, and banks, in turn, for clients (Barr et al., 2020). Or, these functions will be assigned to financial intermediaries specially accredited with the regulator, while control over the movement of digital money in the wallets of bank customers will be carried out by the Central Bank of the Russian Federation and banks authorized to open digital wallets. Thus, it is suggested to create a two-level financial monitoring system. The main link of financial monitoring should be the bank that opened the digital wallet (account), it is reasonable to entrust it with the functions of primary financial monitoring.

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The question of control over the issue of digital money also raises concern, whether the regulator will be able to control the issue of digital payment instruments as effectively as it happens with cash and funds on accounts in commercial banks.

Digital currency can create a separate problem for the banking sector in the form of an outflow of liquidity from banks in case if customers can transfer their money to a digital wallet without restriction. Therefore, the regulator should set a limited threshold for such operations. Establishing a limited threshold will also minimize cybercrimes, since criminals will not be able to steal a large amount of money in a short period.

And most importantly, will the regulator be able to prevent the use of digital currency in order to legalize criminal proceeds and capital outflow abroad? The solution of these issues is seen in the creation by the regulator of an effective multi-level system of control over financial transactions, increased identification of users of a digital product, establishing limits on transfers within online and offline settlements for one client. Special attention should also be paid to control over the use of financial services and instruments in the regime of cross-border transfers.

In this regard, it is extremely important for the Bank of Russia to continue an active policy aimed at protecting the interests of depositors and customers of credit institutions, including through the introduction of modern international standards and practices in the field of financial risk management, internal control systems, banking regulation and supervision.

An important goal is to increase the level of competition in the banking sector and the competitiveness of Russian banks in terms of risk management, business model efficiency, capital adequacy and quality. The measures taken by the Bank of Russia should contribute to both increasing confidence to the banking system and increasing its reliability for depositors and creditors and the efficiency of transforming funds attracted by banks into loans and other banking services based on modern information technologies.

7. Conclusion

The possibility of introducing digital currencies of the Central Bank has recently been actively discussed in the financial sphere. In particular, the issue of the possibility of introducing a new institution of financial services and non-cash payments - the digital ruble, is being discussed.

An unconditional factor in increasing the efficiency of banking regulation is the development of the supervisory infrastructure, the improvement of the very model of banking regulation and supervision, as well as the introduction of international standards and practices of banking regulation and supervision.

This problem can be solved by switching to a risk-based supervisory model, by introducing norms and standards adopted by the Basel Committee on Banking Supervision at the Bank for International Settlements, as well as by improving prudential regulation and supervision. This improvement consists in increasing the quality of reporting to the Bank of Russia, introducing capital structuring, as well as taking into account systemic risks and interests not only within the banking sector, but also in the entire financial market of the state and, moreover, in the entire economy of the country.

When implementing regulation and supervision, it is necessary to combine the formal nature, transparency and accuracy of prudential supervision, innovative practices and indicators of the Basel

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Accords, a systemic and risk-based approach of prudential regulation, as well as a substantive nature in it. All this together will allow to form a truly effective and modern system of banking regulation and supervision, as well as to successfully use it for global financial management so that the banking system can withstand disruptions.

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