

Special Feature: Facebook Announced the Libra Digital Currency¹

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On June 18, Facebook announced Libra, a digital currency to facilitate payments. Given the size of the potential user base, implications could be significant for monetary policy, financial stability and intermediation, financial inclusion, consumer protection, and the efficiency of payments, including remittances. Over the coming months, Facebook will gather feedback before the targeted first-half 2020 launch date.

Libra is a digital currency backed by a basket of currencies.² It aims to facilitate “access to better, cheaper, and open financial services.” The [white paper](#) says it is looking to leverage crypto-asset technology to enable the transmission of funds “instantly, securely, and at low cost.” By [one estimate](#), Libra could lower the cost of remittances from Sub-Saharan Africa by over \$1 billion per year.

Libra would be available on authorized online exchanges through Facebook services such as WhatsApp and Messenger, and standalone mobile apps. Peer-to-peer as well as consumer-to-business payments would be possible. Libra is likely to be accepted across a large network of merchants, leveraging the existing user base of its founding members (such as eBay, PayPal, Uber, Visa, and Vodafone).

The backing basket of currencies (reported to be EUR, GBP, JPY, and USD) are to be held in bank accounts and short-term government securities. Users will not receive interest, which will accrue to the Libra Association (see below). The [white paper](#) suggests Libra could be redeemed at any time into fiat currency through authorized exchanges, albeit without an exchange rate guarantee.

Libra will be managed by the Swiss-based [Libra Association](#) comprising payments service providers, telecoms companies, online marketplaces, venture capital firms, and nonprofit organizations. the Libra Association will be responsible for establishing clear governance, verifying transactions, investing the currency basket, and managing users’ balances. The Association currently comprises [29 founding members](#) - each of them have invested the minimum \$10 million to join (Figure). Most are U.S.-based, and none are commercial banks or competing BigTech firms. The goal is to expand the membership of the Libra Association to 100 geographically diverse members. Each \$10 million investment [entitles](#) one vote in the governing council, subject to a cap of the greater of one vote or one percent of total votes.

Facebook created a new subsidiary ([Calibra](#)) to operate user-facing services on top of the Libra network and to ensure separation between social and financial data.

According to its [customer commitment](#), transactions data will not be shared with Facebook or any third party without customer consent. However, there are “limited cases” where data may

¹ This feature was prepared by John Kiff and Hunter Monroe, and reviewed by Tommaso Mancini-Griffoli and William Kerry (all MCM). It is based on press reports and the [Libra](#) and [Calibra](#) websites.

² Libra will run on an open source [Libra Blockchain](#) but whether Libra is “blockchain-based” is being [discussed by commentators](#). While Libra will operate as a [distributed ledger](#), only Libra Association members will be able to write transactions to this ledger.

be shared “to keep people safe, comply with the law, and provide basic functionality to the people who use Calibra.”

Calibra [says](#) it will implement a robust AML/CFT program even if local regulations have not applied AML/CFT laws to crypto wallets. User onboarding will supposedly be fully compliant with know-your-customer (KYC) best practices, and the Association has set an additional goal of developing an open decentralized and portable identity standard.

Calibra is [seeking](#) money transfer licenses to cover its wallet-related operations, but the Association, which manages all market and redemption risks, may not be subject to prudential regulation. Also, different regulatory approaches [might apply](#) depending on where Libra is traded or whether Libra is classified as a security. No international best practices currently exist on regulating crypto exchanges.

The official sector has [expressed](#) some initial views about the Libra project. Reuters [reports](#) that the G7 is launching a task force to study how stablecoins like Libra are regulated. The [Bank of England](#) will “approach the Libra with an open mind but not an open door” while floating the idea that Fintech firms could be allowed to place deposits at the central bank. The U.S. Senate Banking Committee will hold a [hearing](#) on Libra on July 16.

Media commentators have focused on several economic and financial issues, including:

- **The impact on monetary policy.** Facebook co-founder Chris Hughes [warns](#) that Libra could facilitate currency substitution out of the local currency of countries with weak institutions, high inflation rates, and volatile exchange rates. He pointed out that Libra may make it harder for central banks to prevent capital flight and enforce capital restrictions. Hughes also warned that monetary policy transmission and effectiveness could be weakened if Libra becomes a unit of account.
- **The impact on financial intermediation.** [The Economist](#) warns that, depending on the extent that Libra’s backing assets are deposited back into banks, bank funding could become more volatile for banks that lose deposits. In addition, it pointed to the possibility that Facebook and other BigTech companies may decide one day to also offer deposits and credits, turning themselves into full-fledged banks.
- **The impact on financial stability.** [The Economist](#) also warns of the risk that sudden large waves of Libra redemptions strain the ability of authorized exchanges to liquidate backing assets, or rapidly withdraw backing deposits out of banks. Also, the same article points out that individual users may be exposed to unrecognized risks, such as exchange rate (relative to domestic currency); credit (bank failure and sovereign); and market risk (government securities will fluctuate in value).
- **Unclear financial inclusion impact.** One of the Libra’s purposes is to support inclusion, but there is [debate](#) as to how and whether that could be achieved.

Figure: Libra Association Founding Members

