

Snap | 17 April 2020

## Facebook's Libra updates its plans, now back in business?

It's been a few months since we heard from Libra. As it turns out, the consortium has been working hard on version 2.0 of its [white paper](#). This time, its proposed digital currency has a serious chance of being acceptable to authorities



It turns out that Libra had a lot of homework to do. When the initial white paper was published in June, a storm of criticism followed. Authorities all over the world were afraid a global stablecoin with the userbase of Facebook would create a de facto global private central bank, reducing the monetary autonomy of existing central banks. Concerns were also raised about Libra's governance and its compliance framework. It quickly became clear that Libra would not fly in its initially proposed form, simply because many authorities would outlaw it.

But the Libra Association paid attention, and their 2.0 plan contains a number of fundamental changes that should to a very large extent address the fundamental concerns raised. To name the most important ones:

- Libra has introduced “single-currency stablecoins” alongside the “global stablecoin”. In other words: the original Libra will get company from EUR-Libra, USD-Libra etc. These local

currency versions blend in much easier in domestic monetary, financial and regulatory framework, and do not pose direct threats to monetary autonomy. That said, a successful Libra network could still influence financial stability. While an important concern, this should not be a complete showstopper. We do see potential issues around the fact that the “global” stablecoin, the original Libra, continues to exist. Authorities will continue to regard this global stablecoin with suspicion, and demand guarantees in some form that it does not threaten monetary autonomy. In what was probably a well-timed coincidence, the Financial Stability Board [issued a consultation](#) about global stablecoins earlier this week..

- Libra is attempting to bring its business participants clearly within existing regulatory parameters. For example, exchanges and wallet providers are to register as Virtual Asset Service Providers ([VASPs](#)), meaning they have to comply with global standards to counter money laundering and terrorist financing. This too is important, as it will provide regulators with the tools needed to monitor and enforce compliance.
- The third important change is that Libra is giving up on a fully decentralised future. Doubts about the feasibility arose immediately on publication of the initial white paper. There was great uncertainty about how a decentralised Libra network would look, and how authorities and supervisors would interact with it. Libra has apparently not been able to provide authorities with a satisfactory sketch of a decentralised network that nonetheless can be supervised and controlled effectively, and has instead opted to let go of the decentralised idea altogether. **This is a very important signal with wider implications.** Various crypto-projects are still working on fully decentralised approaches. But they now have a hard question to ask: will a decentralised setup ever be acceptable to authorities, or will it cause the coin/asset to languish on the fringes of the financial system forever?

Libra has shown that those who gave up on the project, did so too quickly. Libra 2.0 is very different from the initial version and now has a serious chance of being acceptable to authorities, and actually come into existence. The biggest issue in our view remains that the global currency basket-version of Libra is not off the table entirely. Moreover, even in its watered down local-currency form, Libra, in combination with Facebook’s vast userbase, would remain a strong disruptive power to existing payment systems and the financial system at large. Let’s see how Libra’s proposals are received this time round.