

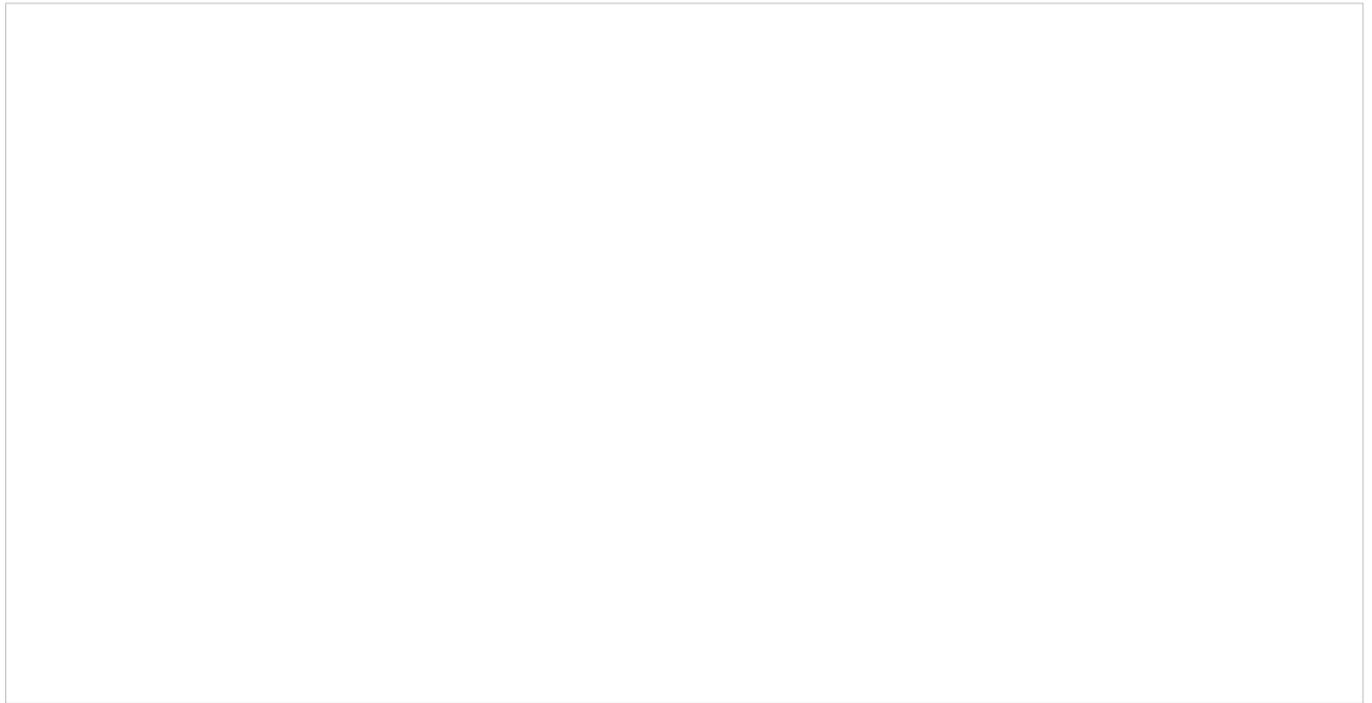


LIBRA

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Why in News?

Facebook has announced the launch of a **cryptocurrency** called **Libra** by **2020**. While this signals facebook's plans to expand into the **global digital currency market**, it has also raised **privacy concerns**.



- **Digi Currency:** Facebook's **cryptocurrency Libra** will allow **smartphone** users to buy services digitally from their phone.
- **Digital Wallet:** Libra will be stored in a **digital wallet** called **Calibra**.
Calibra is a standalone app on a user's smartphone or housed within Facebook-owned services such as WhatsApp and Messenger.

How can users buy Libra?

- Users will need to sign up for an account using a government-issued ID to use Calibra wallet.
- Users will then be able to convert their money into Libra and add it to their digital wallet.
- Once in place, the currency can be used to pay for everyday transactions.

- **Libra Association:** The cryptocurrency will be run by the Libra Association, a **Geneva**-based entity that has founding partners, including Facebook, Mastercard, Visa, Uber, and the Vodafone group.
- **Libra Reserve:** Libra will be backed by a reserve of assets in the form of **securities** (bank deposits and short-term government securities) and **fiat currencies** (like dollar, pound) to give it an intrinsic value and ensure stability.
 - Anyone with Libra will have an assurance that they can convert their **digital currency** into **local fiat currency** based on an exchange rate.
- **Libra Blockchain:** Every Libra payment is permanently written into the Libra blockchain which is a **cryptographically authenticated database** and acts as a public online ledger designed to handle 1,000 transactions per second.
 - Libra blockchain would be much **faster** than Bitcoin's 7 transactions per second or Ethereum's 15.
 - The blockchain is operated and constantly verified by founding members of the Libra Association.
- Libra is planned as a **"global currency"** for use anywhere in the world without transaction fees.

Cryptocurrency

- **Cryptocurrency** is a **virtual or digital** currency for which **encryption techniques** (the process of encoding a message or information in such a way that only authorized parties can access it) are used to control its creation as a monetary unit and to verify the transfer of funds involved.
- **Decentralized:** unlike, fiat currencies (like INR, USD, EUR, etc) cryptocurrencies are not regulated or controlled by any bank, government or centralized financial authorities instead they are created and stored electronically through **blockchain technology**.
 - Cryptocurrencies are transferred from **"peer to peer"** without the intervention of financial institutions, with transactions moderated by miners who record them in a blockchain.
- It has **no physical existence** and cannot be redeemed in another commodity like gold.
- **Bitcoin, Litecoin, Ripple, Ethereum, Pcoin, Dogecoin, Coinye, Namecoin,** etc. are some of the examples of cryptocurrencies.

Facebook Libra vs. Other Cryptocurrencies

- **Regulatory Compliance:** Unlike other cryptocurrencies which are outside the regulation and control of the government or any other financial intermediaries, Libra is intended to set up regulatory compliance and work with regulators to find the best ways to curb **its illegitimate use** for **money-laundering**, or **tax avoidance**, or any other potential purposes that involve **personal privacy**.
- **Centralized Payment System:** Other cryptocurrencies (entirely decentralized) are based on peer to peer transaction system or permission less blockchain but Libra will start as a **permissioned blockchain** (at least for the first five years).
 - Which implies that verifications for each transaction can only be done by insiders who set up the network (like Facebook, Mastercard, Visa, PayPay, Stripe, eBay, Lyft, Spotify and Uber).

Permissioned or Permissionless Blockchains

- Blockchains are described as either permissioned or permissionless in relation to the ability to participate as a validator node.
- **Permissioned or private blockchains** act as closed ecosystems, where users are not freely able to join the network, see the recorded history, or issue transactions of their own.
- **Permissionless or Public Blockchains** networks power up most of the market's digital currencies. They allow every user to create a personal address and begin interacting with the network, by submitting transactions, and hence adding entries to the ledger.
- **Stablecoin:** Unlike the majority of cryptocurrencies which involve very high risk in investment (because of the high price volatility) and can not be converted into fiat currencies, Libra is designed to be a **stable digital cryptocurrency** (backed by a reserve of real assets) supported by a competitive network of exchanges buying and selling Libra and can be converted into fiat currencies.
- **Complete Tracking Of All Minting & Burning:** Libras will not be mined like other cryptocurrencies but will be minted (created) and burned (destroyed) only by the members of Libra Association.
 - Coins are only minted when authorized resellers have purchased those coins from the association with fiat assets to fully back the new coins.
 - Coins are only burned when the authorized resellers sell Libra coin to the association in exchange for the underlying assets.
 - Which implies that entry and exit of normal currencies in and out of the Libra wallets is entirely trackable.
- **Non-profit association:** Unlike other cryptocurrencies that are driven by a **profit motive**, Libra Association is not a non-profit association.
 - Interest** on the reserve assets will be used to:
 - Cover the costs of the system
 - Ensure low transaction fees
 - Pay dividends to investors who provided capital to jumpstart the ecosystem
 - Support further growth and adoption

Significance

- **Financial Inclusion:** Libra could address the issue of financial exclusion, inflation or volatility (attached with currency) by providing a universal, stable currency that is easily transferable between persons or businesses without setting up an entire financial or payment infrastructure.
- **Cross-Border Transaction:** Libra can be transferred across multiple cell phone networks and can help in cross-border transaction, with minimum regulatory intervention and cost payment.
- **Remitting Money:** Without central banks' intervention, Libra can deliver much lower transaction costs and convenience to migrants and their families, letting them hoard and carry less cash.
- **Zero Cost:** According to the World Bank, high cost attached to financial transactions is one of the biggest reasons for financial exclusion in developing countries. Libra would have a near-zero cost attached to it.
- **Wider Reach:** Facebook's (with its over 2 billion users) wider acceptability can be used to tap the unbanked areas.

- **Secure and Safe:** Libra, is based on a new programming language called 'Move', which is claimed by facebook as more secure and private.
 - Facebook has stated that, if someone loses their Libra coins from Calibra wallet, they will get a refund.
 - Facebook has said that account details will not be shared with facebook or third parties for advertising purposes, except for cases of data sharing.

Concerns

Privacy and Security: Regulators, lawmakers and government officials around the world are critical about Libra, as Cambridge Analytica scandal has exposed Facebook's lapses of data privacy and security.

There are concerns that Libra can disrupt the entire global payment system.

Note

Cambridge Analytica (political consulting firm) had harvested the personal data of millions of people's facebook profiles without their consent and used it for political advertising purposes.

- **Unchecked power and influence** of facebook (because of its large user base) could result in a **shift of power** away from the developing countries' central banks toward multinational corporations and the central banks of the largest economies.
 - Libra would hand over much of the control of monetary policy from central banks to private companies, like Visa, Uber, and Vodafone.
- **Shadow Bank:** Libra, being a form of **electronic money** linked to many national currencies, has raised concerns that it might someday be recognized as a **sovereign currency**, with Facebook acting as a "shadow bank" that could compete with the central banks of countries around the world.
- **Anonymous Digital Cash:** Facebook has the blockchain and encryption technology to create traceable credit card or anonymous digital cash like system, or a private digital currency, which has not been created yet.
 - Anonymity would heighten the risks of abuse such as money laundering.
- **Control Over Financial Data:** Governments have raised issues related to the dangers of combining **financial data with behavioral data**.
 - Because of the **openness of the blockchain** for value-addition more and more developers build products on the Libra blockchain, and more people use it, more data is generated with the expansion of the network. This reinforces the ownership and control of the Libra Association (at least its major stakeholders) over the payments system and data.

Libra in India

- To run a payment system in India, or any system that enables payment between a payer and a beneficiary, authorization from the RBI is required under the **Payment and Settlement Systems Act, 2007**.
 - Government of India's tough regulatory stance on virtual currencies, will act as an impediment in authorisation of cryptocurrency based payment system.

- **Draft Banning of Cryptocurrency and Regulation of Official Digital Currency Bill 2019** has proposed a ten-year jail term for holding cryptocurrencies in India.
 - The law proposes to punish mining, holding, generating, selling, transferring, disposing of, issuing or dealing with cryptocurrencies.
 - With the enactment of such laws mere holding of Libra or any other virtual currency would be an offense.
- The Ministry of Corporate Affairs's **Investor Education and Protection Fund (IEPF) Authority favours** a ban on cryptocurrencies by considering it equivalent to a Ponzi scheme (Ponzi scheme is a form of fraud that lures investors and pays profits to earlier investors with funds from more recent investors).
 - Any such ban would hugely restrict the reach of Libra.

Way Forward

- **Risk Assessment:** Government, financial regulators and central bank authorities should scrutinize all aspects of Libra because Facebook has a long history of launching products and services, like political ads and live-streaming video, without fully considering their potential to damage democracy, privacy, security and the global society at large.
- **Protecting the Global Financial System:** Development of new digital financial services, methods of electronic payment and currencies should not be allowed to undermine long-standing financial safety systems in terms of financial regulations (monetary and fiscal policy), even in the name of smoother, cheaper transactions.
- **Financial Rules and Regulations:** In order to protect consumers' interest, regulators must come out with a new set of financial rules and regulations to shield the existing financial system from any harm if the Libra becomes more popular than national currencies.