



## **Facebook's Libra – Will it mainstream cryptocurrencies?**

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Rumors of Facebook Inc.'s plans for a digital currency network or cryptocurrency first surfaced in May 2018, was confirmed sometime early 2019 and the details along with the whitepaper and testnet on Facebook's digital currency named "Libra" were released yesterday. Launch of Libra cryptocurrency is expected to be sometime during the first half of 2020, after blockchain systems are adequately tested and network protocols are put in place.

Libra is said to let you buy things or send money with negligible fee. Users will pseudonymously buy or cash out their Libra online or at local exchange points like grocery stores as well as spending it using interoperable third-part wallet apps or Facebook's own wallet app named 'Calibra', which will be built into WhatsApp, Facebook Messenger and its own Libra app.

The existing cryptocurrencies like Bitcoin, Ethereum and others, lack the potential to become a medium of exchange as they are not properly engineered to scale. Their prices are unanchored which coupled with the fact that they are used more of speculative purposes; make them susceptible to huge and unpredictable price swings. This volatility in turn makes it tough for the merchants and intermediaries to accept it as a payment of medium of exchange. Also, absence of adequate nodes, merchant points or places where the existing cryptocurrencies can be used or are accepted instead of fiat currencies, hinders their mainstreaming as the experience of buying and selling is not as smooth as fiat currencies.

Facebook's Libra maybe able to overcome these impediments and lead into mainstreaming the cryptocurrencies with its over 7 million advertisers and 90 million small businesses on one hand and a global user base of nearly 2.38 billion. Add to these nearly 1.5 billion users of WhatsApp, 1.3 billion users of FB Messenger, 1 billion users of Instagram and about 1.9 billion users of YouTube; and we get a readily available, significantly enormous user base that eludes the existing cryptocurrencies.

Access to the user base through these social media apps, Libra will be able to reach and serve the unbanked population, which is currently estimated to be about 1.7 billion adults. Many people around the world still do not have access to even basic financial services; almost half the adults in the world do not have an active bank account. These numbers get bad in developing countries and are even worse for women.



The cost of this financial exclusion is high. For example, approximately 70% of small businesses in developing countries lack access to formal credit while about \$25 billion is lost by migrants every year in remittance fees paid for sending money home. Libra Association team believes that it is ***implied in this project that wherever the Visa or MasterCard logo are accepted, Libra too will follow suit. This could be a great leap forward for cryptocurrencies and in many respects, will further mainstreaming of this asset class.***

Unlike value of existing cryptocurrencies that can be highly volatile, **the value of Libra is meant to stay largely stable.** Libra's value is tied to a basket of bank deposits and short-term government securities of a slew of historically stable international currencies including dollar, pound, euro, Swiss franc and Japanese yen. The Libra Association maintains this basket of assets and can change the balance of its composition if necessary to offset major price fluctuations in any one foreign currency so that the value of Libra stays consistent. ***This will lend confidence to the merchants to accept Libra as a medium of payment as they would know that their payment in Libra today will not be worthless tomorrow.***

Libra is also being built for speed. Every Libra payment will be permanently written into the Libra blockchain that acts as a public online ledger designated to handle 1,000 transactions per second compared to Bitcoin's 7 transactions per second or Ethereum's 15 transactions per second. The blockchain will be operated and constantly verified by founding members of the Libra Association that includes Visa, MasterCard, PayPal, Uber, Lyft, Coinbase and others.

A structure of Merkle Trees in the code makes it simple for Libra to recognize changes made to the Libra Blockchain. With 5 KB transactions, 1,000 verifications per second on commodity CPUs and upto 4 billion accounts, the Libra Blockchain should be able to operate at 1,000 transactions per second if nodes use at least 40 Mbps connections and 16 TB SSD hard drives.

Privacy issues currently dogging Facebook are unlikely to be inherited by Libra. As the current protocols are, Facebook will not import the contacts of its users or any of the profile information but may prompt if the user wishes so. It will also not share any transaction data back to Facebook and hence will not be used to target the users with advertisements, ranking the News Feed or otherwise earn Facebook money directly. Data may be shared only in cases of adoption measurement, identifying fraudsters or requests from law enforcement. Users of Libra will not need a Facebook, WhatsApp or Instagram account to sign up for Calibra or use Libra.

We hope Libra will become simpler to set-up and more omnipresent as a means of payment method that is efficient, has lower fees and provides access to the unbanked and is more flexible and long-lasting through decentralization. Similar to internet creating a world of low-friction communication and information sharing, Libra may become the ecosystem and utility that can provide world of value transfer and payment. **And that could just be the road to mainstreaming of cryptocurrencies that have till now missed out on their potential beyond being a speculative asset class.**

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