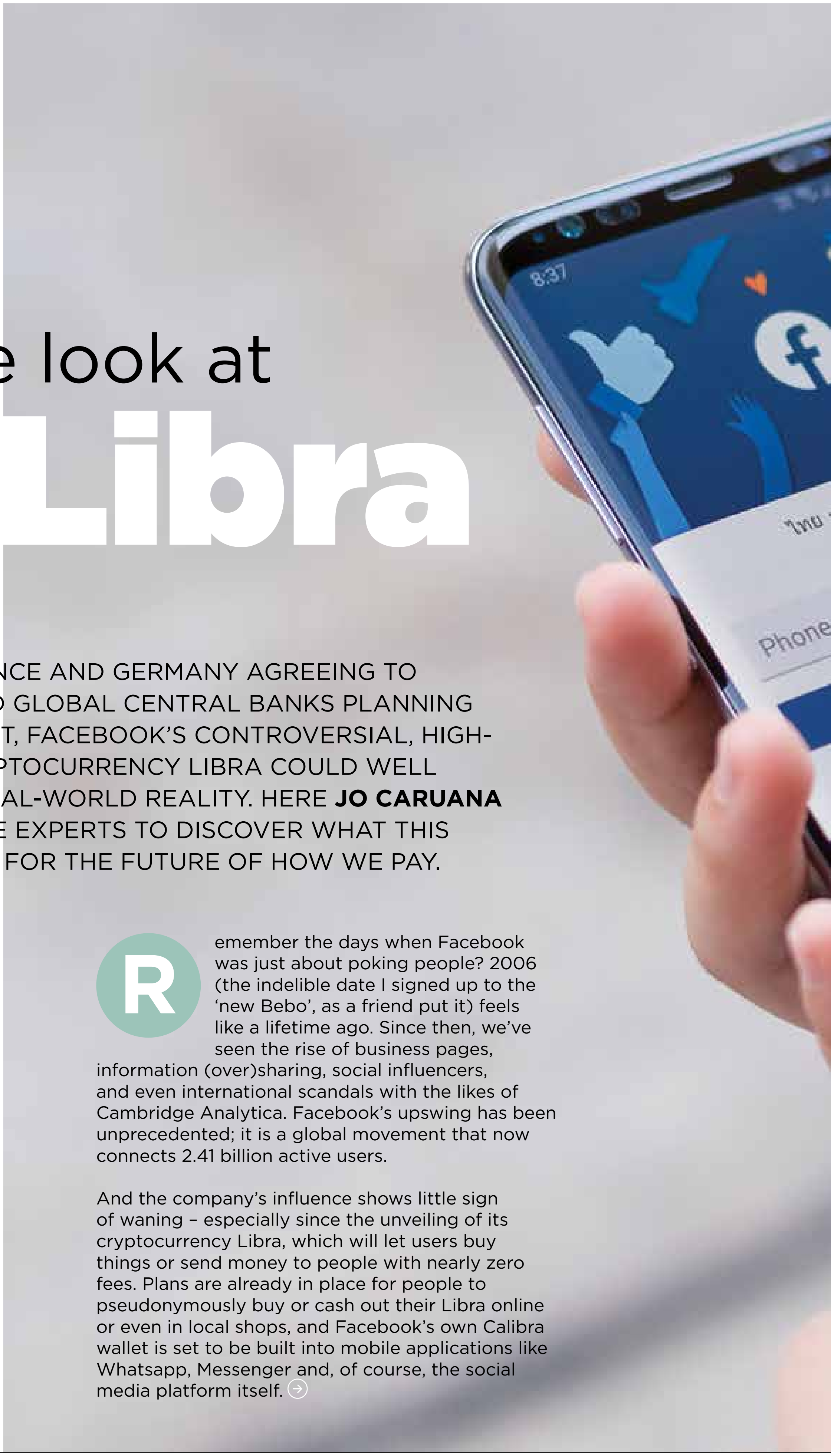
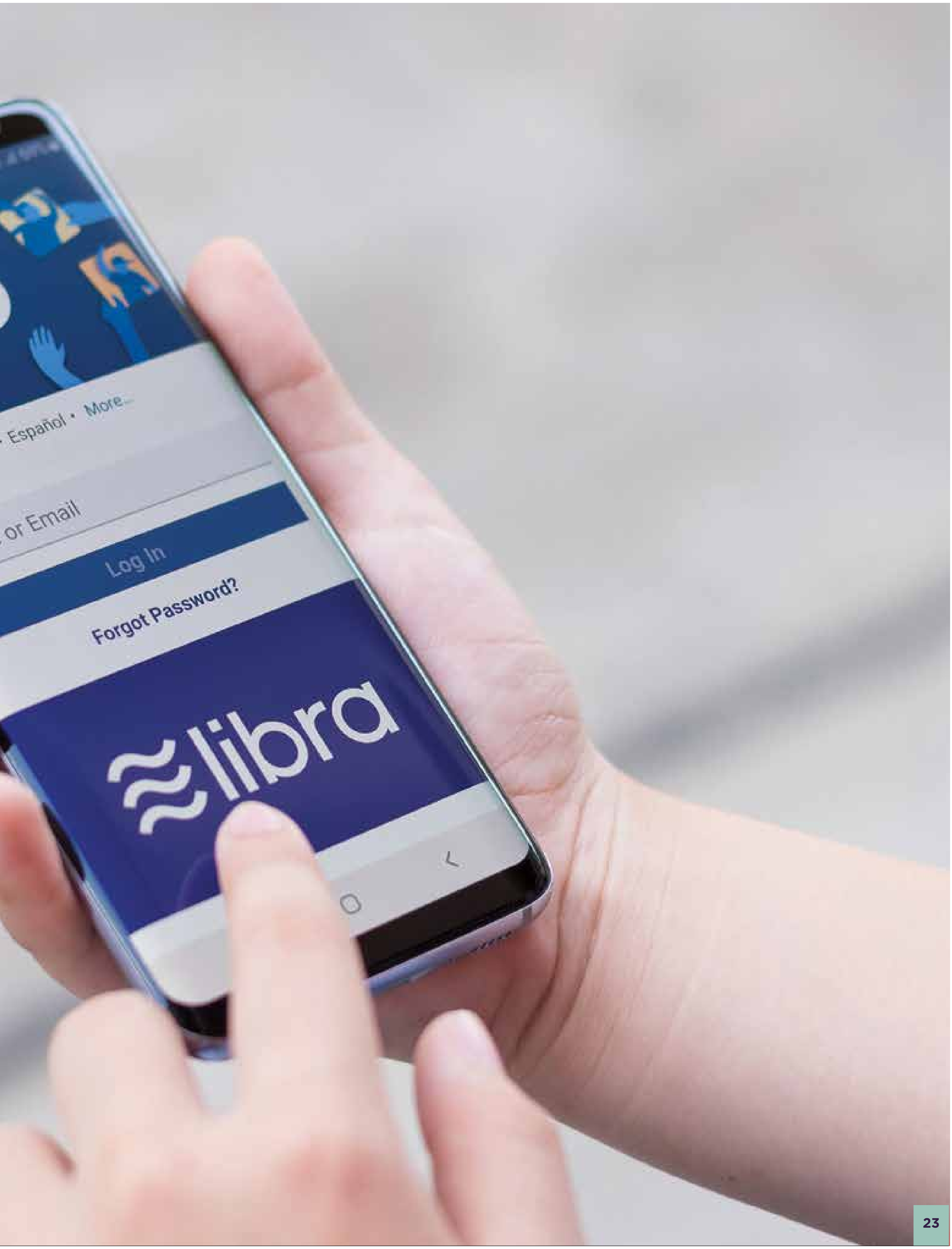


A close look at Libra

DESPITE FRANCE AND GERMANY AGREEING TO BLOCK IT AND GLOBAL CENTRAL BANKS PLANNING TO CONTEST IT, FACEBOOK'S CONTROVERSIAL, HIGH-PROFILE CRYPTOCURRENCY LIBRA COULD WELL BECOME A REAL-WORLD REALITY. HERE **JO CARUANA** CHATS TO THE EXPERTS TO DISCOVER WHAT THIS COULD MEAN FOR THE FUTURE OF HOW WE PAY.

Remember the days when Facebook was just about poking people? 2006 (the indelible date I signed up to the 'new Bebo', as a friend put it) feels like a lifetime ago. Since then, we've seen the rise of business pages, information (over)sharing, social influencers, and even international scandals with the likes of Cambridge Analytica. Facebook's upswing has been unprecedented; it is a global movement that now connects 2.41 billion active users.

And the company's influence shows little sign of waning – especially since the unveiling of its cryptocurrency Libra, which will let users buy things or send money to people with nearly zero fees. Plans are already in place for people to pseudonymously buy or cash out their Libra online or even in local shops, and Facebook's own Calibra wallet is set to be built into mobile applications like Whatsapp, Messenger and, of course, the social media platform itself.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libra

In the white paper that it issued on the topic, Facebook said Libra will 'enable a simple global currency and financial infrastructure that empowers billions of people' and it is expected to be rolled out in the first half of 2020. "The world truly needs a reliable digital currency and infrastructure that together can deliver on the promise of 'the internet of money'," Facebook says.

But the rise so far hasn't been without controversy. Just recently, both France and Germany agreed to block the cryptocurrency, citing concerns over sovereignty and persistent financial risks. Facebook was also quizzed by global regulators on the project, amid concerns over the threat the digital currency poses to financial stability. However, Facebook stressed that Libra won't 'threaten the sovereignty of Nations when it comes to money'. Conclusions on these ongoing discussions are yet to reached, yet there is no denying that cryptocurrencies are a reality that has to be faced, as other global giants, such as JP Morgan, are jumping on the bandwagon, with the latter also having developed its own cryptocurrency to settle transactions between clients in its massive wholesale payments business.

“Libra begs the fundamental question: Which national currencies will be accepted and based on what weighting?”

Ian Gauci,
Managing Partner, GTG Advocates,
Afilexion Alliance and Caledo Group

Talking through what Libra is in more detail, Dr Ian Gauci, Managing Partner of GTG Advocates, Afilexion Alliance and Caledo Group, describes it as "the brainchild of Facebook".

"Facebook, together with a bunch of international corporate heavyweight conglomerates, the likes of Visa, Vodafone, Mastercard, PayPal, eBay and Uber, want to create an open-source digital currency, on blockchain," he says.

"These heavyweight conglomerates will form a centralised Libra Association endowed with political power that will make all the technical, software and managerial decisions. Presumably, at some stage when they decide to, this association might be further expanded as others join in."

Dr Gauci highlights the fact that Libra will only be created when someone buys it with a national currency. "The initial supply of Libra will go to the founding partners, who have all committed $10 million each," he explains. "These founding partners will also be 'validator nodes'."

"Conversely, Libra supplies will be destroyed (burned) when someone takes their Libra back to the Association to exchange the digital currency for some traditional national currency (reminiscent of the defunct US gold standard). To me, it begs other fundamental questions: Which national currencies will be accepted and based on what weighting? How often will the weighting be reviewed? And how will one make sure there is no bias or political interference in the decision?"

These are all very valid queries – and Dr Gauci isn't the only one calling the system into question. After all, while, to many, it may be all well and good for Facebook to cause disruption of this kind in the financial world, the wider system does need to be taken into consideration.

Take the Eurosystem Central Banks, for instance, what will their stance on crypto be and how it could change things? Jesmond Gatt, Chief Officer Banking Operations at the Central Bank is categorical about this: "The Central Bank of Malta, as part of the Eurosystem, follows the European Central Bank's view, namely that cryptocurrencies do not qualify as currencies from a Union perspective. In accordance with the EU Treaties and the provisions of Council Regulation (EC) No 974/98, the euro is the single currency of the Union's economic and monetary union. Cryptocurrencies are not legal currencies or money. As they are not fiat currencies, it would be more accurate to regard them as an asset rather than as a means of payment."

Regulators note the risk of concentrating so much responsibility across a small number of private actors who may not necessarily have public interest priorities.

Jesmond Gatt, Chief Officer Banking Operations, Central Bank of Malta

Unless the regulatory treatment of Libra is clarified, I cannot envisage that it will be adopted by local banks.

Karol Gabarretta,
Secretary General,
Malta Bankers' Association

Nevertheless, given the evolving digital economy, the Central Bank does see potential in digitalising currencies, particularly in the eventual issuance of a central bank digital currency. "However, providers of exchange services between virtual currencies and fiat currencies and custodian wallet providers need to be licensed or registered and regulated," Mr Gatt continues. "Cryptocurrencies represent risks in terms of consumer protection and confidence, cyberattacks, money laundering and terrorist financing."

"Society's expectations for a currency or money are based on three broad concurrent properties: as a universal means of payment, as store of value, and as a unit of payment," he explains. "These properties underpin the viability of a currency to enable society to interact within a sound economic, social and financial ecosystem. All this relies on a number of actors required to maintain the necessary order."

"Contrary to fiat currency, cryptocurrencies offer no guarantee of security, convertibility or value," Mr Gatt adds. "Many propositions currently considered as cryptocurrencies have fundamental assurances that are either missing or inherently weak, untested, unstable and exposed to risks that are yet to be assessed." Regulators are developing the required regulatory regimes which should – going forward – address specific aspects. "Regulators note the risk of concentrating so much responsibility across a small number of private actors who may not necessarily have public interest priorities," Mr Gatt warns.

Going into more detail about how local banks are reacting to crypto – and Libra specifically – Karol Gabarretta, Secretary General of the Malta Bankers' Association, says that reactions have been muted so far. "I believe this is the result of several factors," he says, explaining that the Association's main role was, and continues to be, that of a coordinating, advocacy and lobbying body on sectorial issues and policies for banks operating in Malta." →

"These include the significant risk-averse approach taken by local banks with regards to this new asset class, the high volatility exhibited by most cryptocurrencies over the past year or so, the (justifiable) stance demonstrated by regulatory authorities to date regarding the use of cryptocurrencies by banks, and the European Banking Authority's (EBA) recommendation earlier this year that the European Commission carries out further analysis to determine the appropriate EU-level response."

"Furthermore, in July 2014 and August 2016, the EBA had issued two opinions on virtual currencies which inter alia recommended that supervisory authorities 'discourage' credit institutions, payment institutions and electronic money institutions from buying, holding or selling virtual currencies, and recommended bringing certain virtual currency actors into the scope of the AML Directive."

As for Libra specifically, Mr Gabarretta doesn't think that the situation has sufficiently evolved in an objective way so as to provide concrete indications on how this will pan out in the future. "I believe that it is too early, at this stage, to come up with expectations as to how Libra will affect (if indeed it will) the traditional banking sector," he says. "However, unless the regulatory treatment of Libra is clarified, I cannot envisage that it will be adopted by local banks, particularly in view of the EBA's stance on virtual currencies."

Turning our attention to the wider crypto sphere and its future, the experts share their thoughts on what to expect from it here in Malta. "While it may be hasty to totally discount the future use of crypto and Libra by local banks – particularly if in time there is certainty from the regulatory perspective regarding the applicable treatment – various factors in play would seem to discourage any early adoption of such virtual assets by local banks," Mr Gabarretta says.

"It should also be realised that, in the case of certain sectors which are new and untapped – and which are not yet subject to appropriate regulatory oversight and requirements – it is to be expected that banks, which should always act in the interests of their depositors, adopt a prudent approach to such assets. In fact, to use an analogy on this point, while the IMF has welcomed Malta's establishment of a legal framework for virtual financial assets, it stated that the high risk of such assets warrants cautious implementation, and putting into practice the relevant laws and regulations should be undertaken gradually."

On behalf of the Central Bank, Mr Gatt believes that the future blockchain technology on which the circulation of certain cryptocurrencies is based, should offer numerous potential uses to both financial and non-financial corporations. "This technology, among others, contributes to the welcome dissemination of innovation in the financial sphere," he explains.

"Owing to this, blockchain as a technology offers a number of prospects which are being explored by many stakeholders in the financial world, as it can be used for the digital representation of many assets. With this in mind, central banks in future may opt to adopt it for the digital representation of their own fiat currency, or as underlying technology for payment and settlement systems," he concludes. BI