Two sides to 'crypto-coin'

***Markos Zachariadis** discusses the controversy over Facebook's Libra digital currency initiative, the importance of data and the challenges of regulating digital currencies*

After a short period of relative calm in the "crypto" world, the announcement of Facebook's plans for Libra last June, and the impressive participation of global companies in the Libra Association, sparked fresh debates about the legitimacy of crypto-assets and their role in shaping the future of money. Most importantly, Facebook's project has been a wake-up call for many regulators.

Some central banks, among them the ECB, the People's Bank of China and the Bank of Japan, announced their intention to explore launching their own digital coins, and several regulatory bodies started contemplating the risks and threats to financial stability and monetary policy more seriously. The initial response from watchdogs was negative, with EU officials stating that no such stablecoin would be permitted without further "clarity" on the initiative and before addressing all the necessary fiscal and operational issues.

Thinking of the backlash Facebook and its leadership faced from regulators and politicians, one has to wonder "why do it?". How does it resonate with the company's overall strategy? After all, Mark Zuckerberg, its chief executive, told the US Congress, a couple of months after the Libra white paper was published, that Facebook is "not the ideal messenger right now" to support a global stablecoin. For the most part, it seems that all the discussions around the details of the Libra project, such as the stablecoin terms, the Libra Reserve, the blockchain governance, etc are only sideshows to a bigger debate.

I believe that behind Libra's bold statements about "reinventing money" and fighting financial exclusion for the good of the developing world lies Facebook's mission to grow its empire. Libra would allow it to collect more data, in particular financial data that is currently the purview of financial services, establish a new innovation platform and become the gateway for verifying digital identities.

Transactional and payment data holds tremendous value. It gives deep insight into people's behaviour and shows their creditworthiness. It is the one advantage deposit-taking institutions hold over "bigtech" companies. In principle, the Facebook wallet, Calibra, would give it unique credit insights. Facebook would not only be able to use this to fine-tune its advertising (for example, the algorithm might track spending on computer accessories against mood), but it could also launch tailored financial products. Blockchain technology – as a fully integrated and immutable payment and currency system – will ensure no data escapes the platform. Calibra could also be the gateway for third-party service access through the sharing of personal data. Effectively, Calibra could be a hub where users exchange their data for Libra tokens that give access to useful apps or other services. Finally, there is a clear intention that Calibra would act as a know-your-customer (KYC) mechanism or digital identity provider to regulate access to the payments network.

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Given all those features, how should regulators respond to the Libra challenge? The Libra Association and blockchain/payment system governance; the Libra Reserve; and monetary issues such as money supply, collateral, stablecoin framework, etc are just one side of the "crypto-coin". One should not forget Facebook's data-gathering activities around Calibra. In that context, regulators should also pay attention to the KYC functionality of the wallet. How will transactional (personal financial) data be treated? They would need to ensure that any system is fair and transparent. For example, would external (non-Facebook) wallets be able to access the Libra blockchain? Lack of competition would lead to a data-monopoly set-up that would only expand Facebook's realm. Protecting consumers would require data portability, for example between wallets.

In the age of open banking, where legacy-IT banks are forced to open up account and payment data, "bigtech" companies cannot be allowed to lock-in users via information asymmetries. In the digital economy, data is the new currency and regulatory interventions will have to be rethought to address some of the above issues – and, potentially, others that ongoing payments innovation brings. ■

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