



Libra: A Facebook-led Cryptocurrency Initiative

October 21, 2019

On June 18, 2019, Facebook [announced](#) that, with 28 other members, it had founded the *Libra Association*, which planned to launch a new cryptocurrency, called *Libra*. The association released a [white paper](#) that outlined the characteristics of Libra and described its goal of creating a cryptocurrency that would overcome some of the challenges faced by other cryptocurrencies and deliver the possible benefits of the technology on a large scale.

[President Trump](#) and [Treasury Secretary Mnuchin](#) raised concerns about the Libra project, as did several Members of Congress during [Senate Banking Committee](#) and [House Financial Services](#) hearings, although some Members were more welcoming of efforts to advance financial innovation. The House Financial Services Committee majority has [drafted legislation](#) that would effectively block the Libra project.

Internationally, the G-7 finance ministers and central bank governors [agreed](#) that Libra raises “serious regulatory and systemic concerns, as well as wider policy issues, which both need to be addressed before such projects can be implemented.” Subsequently and reportedly in part due to the level of official scrutiny of the project, several prominent members, such as eBay, Mastercard, PayPal, and Visa, [withdrew](#) from the Libra Association.

This Insight briefly describes the potential benefits and concerns raised by Libra. For more information about cryptocurrencies and digital currencies, see CRS Report R45427, *Cryptocurrency: The Economics of Money and Selected Policy Issues* and CRS Testimony TE10034, *Examining Regulatory Frameworks for Digital Currencies and Blockchain*, by Rebecca M. Nelson.

Potential Benefits

The Libra Association aspires for the Libra to be a new global cryptocurrency, particularly by tapping Facebook’s network of 2.4 billion people. The purported benefits of the Libra include the following:

- **Eliminating the need for intermediaries to process payments.** Cryptocurrencies strive to make payments cheaper and faster by eliminating the need for the private ledgers of intermediaries, like banks. Instead, they use public ledgers maintained and protected by a decentralized network of users, cryptography, and certain validation protocols. Libra

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IN11183

hopes to deliver faster and more efficient payments on a large scale, whereas cryptocurrencies generally have not yet achieved widespread use.

- **Greater price stability.** Large fluctuations in the value of early cryptocurrencies, like Bitcoin, are one reason consumers have been reluctant to adopt them. The Libra would be a “stablecoin,” a type of cryptocurrency pegged to or backed by [fiat currencies](#), other cryptocurrencies, or precious metals. Libra would be backed by a reserve of assets with stable values.
- **Financial inclusion.** Libra hopes to extend financial access to populations that do not currently have access to bank accounts or traditional financial services.

Policy Concerns

Policymakers have raised a number of concerns about the proposed Libra, including the following:

- **Anti-money laundering.** The Libra white paper acknowledges that it would allow users pseudonymous access not linked to real world identity; the association asserts that exchanges (where cryptocurrencies can be exchanged for fiat currencies) and wallets (apps that make transacting in cryptocurrencies more user-friendly) will be responsible for compliance with anti-money laundering (AML) measures. However, the association provides little detail on how Libra would achieve both aims of pseudonymity and AML compliance, which are seemingly at odds.
- **Consumer protections.** Unlike fiat money held in a bank account, at present, Libra holdings would not earn interest or be backed by deposit insurance. Libra users would assume foreign exchange risk by holding Libra and maintaining payment obligations, such as taxes, denominated in the traditional fiat currency. Users would also need to accept the risk that the value of their Libra holdings could change relative to the domestic fiat currency if the Libra Association changed the currency composition of the reserve basket. Risks to consumers may be particularly concerning as Libra Association’s target audience—[unbanked consumers](#)—generally have limited assets.
- **Global financial stability.** If Libra were to become a currency used by billions of people, it could have implications for global financial systemic stability. For example, if people used Libra as a stable “store of value,” but its value against a government currency or a group of currencies began to decline, it potentially could be subject to bank-like runs. Alternatively, Libra potentially could foster runs on traditional institutions in times of systemic stress, if people viewed the cryptocurrency as relatively stable and decided en masse to move their assets from the traditional system into Libra. Such issues raise the possibility that the [Financial Stability Oversight Council](#) would consider designating the Libra Association and/or Facebook as a [Systemically Important Financial Institution](#) or a [Systemically Important Financial Market Utility](#), thus subjecting them to prudential regulations and supervision by the Federal Reserve.

There are also concerns about how the Libra would fit into the existing patchwork of national-level cryptocurrency regulations, and whether regulatory differences applied to a cryptocurrency used by billions of people could create instability. Some policymakers have [expressed concerns](#) about the Libra Association’s choice to locate in Switzerland. Some have wondered whether locating in a country that has arguably been relatively permissive in regards to financial regulation in the past was made in an effort to avoid appropriately stringent regulation. Other observers argue it is a sign that the United States is overly aggressive in regulating cryptocurrencies, thereby driving potentially successful cryptocurrency-based businesses to other countries.

- **Monetary Policy.** Government central banks conduct monetary policy by controlling how much government-backed, fiat money is in circulation in an economy. Some have [argued](#) that if currencies that the government did not control (such as Libra) were also prevalent, then the central banks' ability to control inflation and moderate economic activity could be hindered, because actors in the economy would be buying, selling, lending, and settling in such currencies.
- **Privacy.** Previously, concerns about privacy and cryptocurrency markets focused on whether users had too much privacy, as pseudonymity potentially allows bad actors to engage in illegal activities. Libra inverts the policy discussion to focus on protecting user data. In particular, concerns focus on how users' data on financial transactions would be protected, and not merged with user data from other Facebook platforms.

Outlook

As Congress considers its policy options regarding Libra, the future of Libra is uncertain. The Libra Association still has to develop the systems necessary to create, distribute, and allow payment in Libra. Furthermore, it has stated it will not make Libra available until [regulators' concerns are addressed](#). Meanwhile, private companies and central banks are continually developing ways to make [existing payments](#) systems [faster, safer, and more efficient](#), perhaps undercutting future demand for Libra. For example, the Federal Reserve has announced plans to make a [real-time payment system](#) available in 2023 or 2024, and central banks around the world are examining the possibility of creating [central bank digital currencies](#).

Author Information

Rebecca M. Nelson
Specialist in International Trade and Finance

David W. Perkins
Specialist in Marcoeconomic Policy

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