



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### What is Libra? Understanding Facebook's currency

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09/24/2019

In a new SAFE Policy Letter, Maik Schmeling analyzes the planned digital currency of Facebook



Facebook's announcement in June 2019 to work on a new digital currency has led to intense discussions. What is behind Libra? How will the currency work, how will it differ from other digital currencies and what benefits could it bring? On the other hand, there are warnings of possible negative effects, for example on financial stability. In the new Policy Letter No. 76 "What is Libra? Understanding Facebook's Currency" (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ->

<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ->detailsview/publicationname/libra.html), Professor Maik Schmeling (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/721-schmeling.html>) explores these questions about Libra.

Schmeling bases his analysis, among other sources, on the White Paper (<https://libra.org/en-US/white-paper/?noredirect=1>) of the Libra Association. First, he approaches the question of what constitutes Libra: Libra is a blockchain-based digital currency backed by a reserve of assets. This aims to keep the value of Libra stable. An independent organization (the Libra Association) develops the ecosystem of the currency.

From Schmeling's point of view, by underpinning it with a currency basket, Libra resembles a currency board system in a certain way. In his analysis, the author discusses these similarities but also identifies important differences. For Schmeling, the marketability against other fiat currencies by authorized resellers, on the other hand, is an aspect that brings Libra close to money market ETFs. Finally, he examines the similarities of Libra to the International Monetary Fund's Special Drawing Rights.

In a further section of the paper, Schmeling discusses open questions arising from the Libra Association white paper. These questions focus, for example, on the benefits of the digital currency, its marketability, and possible regulation. Finally, the author discusses potential developments that could follow a market entry and strong dissemination of Libra, such as a possible strong demand for derivatives and credit products in the Libra ecosystem.

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*Policy Letter No. 76 by Maik Schmeling: What is Libra? Understanding Facebook's Currency (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/libra.html>)*

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