

# Working towards Australia's participation in digital innovation of the global financial system

A call to potential partners  
to support membership application  
to the Libra Association



## Purpose of this document

This document is designed to support discussions among potential partners of Holon Global Innovations Pty Ltd ACN 635 014 756 ("Holon Innovations") in working collaboratively towards a successful application for Founding membership and validator node operation of the Libra Association.

Successful membership and validator node operations may provide an opportunity to deliver significant business and socioeconomic benefits, identify transitional impact areas and advance Australia's interests in digital innovation of financial services.

For further information and discussion, please contact:

Heath Behncke  
Managing Director & Portfolio Manager  
Holon Global Investments Ltd  
Mobile: 0414 259 013  
Email: [h@holon.investments](mailto:h@holon.investments)

Luke Behncke  
Executive Officer  
Holon Global Investments Ltd  
Mobile: 0439 390 968  
Email: [l@holon.investments](mailto:l@holon.investments)

## Our vision

To enable financial inclusion in Australia through digital innovation.

## Our mission

To secure and operate a validator node as a member of the Libra Association with a consortium of industry, research and social impact partners and collaboration with government and regulators.

March 2020

© 2020 Holon Global Innovations Pty Ltd ACN 635 014 756 (Holon Innovations). All content is original and has been researched and produced by Holon Innovations unless otherwise stated. No part of Holon Innovations original content may be reproduced in any form, or referred to in any other publication, without the express written permission of Holon Innovations. The content is available for informational purposes only and is subject to change without notice. All statements made regarding companies or securities or other financial information in this document or any documents relating to Holon Innovations are strictly beliefs and points of view held by Holon Innovations or the third party making such statements and are not endorsements by Holon Innovations of any company or security or recommendations by Holon Innovations to buy, sell or hold any security. We will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from the use of or reliance on such information. You should seek independent financial advice prior to acquiring a financial product. All securities and financial products or instruments transactions involve risks. Please remember that past performance results are not necessarily indicative of future results. The information in this document may be accessed worldwide however it is not directed at residents in any country or jurisdiction where such distribution or use would be contrary to local law or regulation.

## Key points

- The establishment of the Libra Association ("the Association") to create a global digital currency ("Libra") to enable billions of people to access **fast, low-cost** and **secure** payment transactions anywhere on the planet is a significant innovation in financial services.
- Facebook is only one member among the twenty-eight currently included as part of the Association, with governance arrangements in place to ensure **no one member controls the ecosystem**.
- Libra is not a pure cryptocurrency as it will be backed by a reserve of diverse securities and fiat currencies from around the world that may make it one of the **lowest risk** and **stable assets**.
- Swiss regulations have opened the door for Libra to obtain status as a **payment token** without being encumbered by bank licensing.
- Libra's introduction may **significantly impact** the Australian financial services industry but also provide **unprecedented opportunities** to support new jobs, businesses and markets.
- **Australia's participation** in Libra's proposed innovations is critical to ensuring our country is well placed to take advantage of these opportunities and identify transitional impacts as the global digital financial system evolves.
- The Association's application for Founding membership and operation of validator nodes for the Libra blockchain sets a **high-bar** and it is unlikely that any one Australian organisation will meet the requirements.
- Holon Innovations has been established to develop a **consortium of partners** including businesses, technologists, academic institutions and social impact organisations to work collaboratively with governments and regulators towards a **whole of system approach** for successful application of Founding membership of the Association and to operate a validator node for the benefit of Australia.
- The development of a consortium of partners, and potential membership of the Association, addresses the industry, business, regulatory and social impact **risks** associated with a lack of intelligence gathering, representative activities and ecosystem engagement opportunities if **Australia were not to participate**.

# Background and context

## Libra Association

1. On 18 June 2019, Facebook announced the establishment of the Libra Association ("the Association"),<sup>1</sup> an independent, Swiss, not-for-profit organization with the mission to empower billions of people through the creation of a global digital currency ("Libra") and financial infrastructure for introduction in 2020.
2. The Association states that there are billions of people who are either unbanked or underbanked, and yet have internet access. More importantly, it identifies that the current financial system is complex and cost prohibitive,<sup>2</sup> particularly to the most vulnerable.
3. Libra's goal is to enable fast, low-cost and secure payment transactions anywhere around the globe to support financial inclusion.
4. The initial group of 28 Founding members of Libra have a significant presence within the global digital ecosystem and digital economy (being billions of users and trillions of dollars in market capitalisation).
5. Participation it is likely to progress quickly given the size and customer reach of the current membership, and their ability to leverage the existing digital infrastructure.
6. The Association has committed to working with governments, regulators, industry and the public to introduce a secure, open source, stable and scalable solution, with stringent governance arrangements that emulate its commitments.<sup>3</sup>

## Libra as a low risk, stable asset, and security and privacy

7. Libra is not a pure cryptocurrency as the asset will be backed by diversified communities globally (deposits and short dated government securities and fiat currencies across a number of countries) through its reserve. This presents a potentially lower risk and more stable asset than holding any one currency from any one particular country.
8. Libra's blockchain based security, its focus on privacy measures, and anti-money laundering (AML), know your customer (KYC) and counter-terrorism financing (CTF) safeguards are front and centre. The Association is committed to ensure that private data is not shared inappropriately with any third party.

## Swiss Regulation and low-cost value transfer

9. In February 2018, regulatory recognition of blockchain innovation/tokens according to their underlying economic function by the Swiss Financial Market Supervisory Authority (FINMA)<sup>4</sup> opened the door for Libra's establishment.
10. Under FINMA's guidelines, Libra could be considered a "Payment Token" rather than a traditional security, and not incur classification as a deposit for the Association to require a banking license.<sup>5</sup>
11. In addition, the permissioned network proposed by the Association could see the costs of running it almost insignificant as a percentage of float (less than 0.03% or 3bps per annum), in which these costs will be covered by the interest returns earned on the Libra Reserve.
12. As a result, the regulatory innovation recognising the value of Libra's blockchain based solution, and low cost of running the network, would enable value to be transferred for low-cost anywhere there is an internet connection.

<sup>1</sup> <https://libra.org/en-US/association/>

<sup>2</sup> The global average cost of sending \$200 across the world is currently around 7 percent. see <https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018>

<sup>3</sup> <https://www.banking.senate.gov/imo/media/doc/Marcus%20Testimony%207-16-19.pdf>

<sup>4</sup> <https://www.finma.ch/en/news/2018/02/20180216-mm-ico-wegleitung/>

<sup>5</sup> <file:///C:/Users/L/Downloads/wegleitung%20ico.pdf>

## Threat or opportunity?

13. While supporters indicate its pragmatic merits in relation to issues with current financial infrastructure and regulation,<sup>6</sup> most of the initial criticism against the introduction of Libra has been its potential "destabilising effects."
14. The perceived de-stabilisation effects have re-stimulated debate about digital currencies around the world. For example, China,<sup>7</sup> Sweden,<sup>8</sup> Turkey,<sup>9</sup> and the Marshall Islands<sup>10</sup> have all indicated their desire to develop a national digital currency or central bank digital currency for various reasons.
15. Whether Libra is seen as a threat or opportunity, the "*genie is well and truly out of the bottle*," and the evolution of the global financial services system through digital innovation has now begun.

## Potential impacts and opportunities on Australian financial services

16. Accelerating advances in digital technology (such as cloud computing and mobile) is enabling many industries to globalise.<sup>11</sup> An outlier to this is the financial services sector which has been hampered, in part, due to jurisdictional constraints differing across the globe.
17. These constraints increase friction in global business and transactions, often impacting those who can least afford it (for example, people sending money back to their families from overseas).
18. A digitally integrated, scalable and global financial services system may reduce systemic risk (being more secure) and transaction costs, while increasing capital efficiency and moving the community away from providing guarantees (via the government).<sup>12</sup>
19. Australia's market that is overweight to financial services and underweight digital innovation, coupled with a small population, make it vulnerable to global digitalisation of its financial infrastructure.<sup>13</sup>
20. Libra has the potential to significantly impact the Australian financial services industry over time. New payment and integration technology solutions that become available through leveraging Libra and member association business models and systems could generate considerable network effects and disrupt financial payment rails locally.
21. Libra may also generate considerable opportunities in the further development of Australia's digital financial services ecosystem, support new jobs, businesses and market growth, and provide payment efficiencies to enable better social inclusion.
22. However, without Australia's representation in the Association, the likelihood of national interests taking advantage of the proceeding technological innovation to meet local needs and become a leader in the region, diminish considerably.

## Participating in the Libra Association

23. The Association has opened applications for Founding membership and to operate validator nodes for the Libra blockchain.<sup>14</sup>
24. The Association says that it is implementing governance requirements in accordance with stringent 'not-for-profit' operating procedures to ensure its goals, principles and reserve management are aligned to an open-source development mandate where no one member controls the ecosystem, including Facebook.<sup>15</sup>

<sup>6</sup> Refer to Caitlin Long's letter to the United States Senate Committee on Banking, Housing, and Urban Affairs at <https://img1.wsimg.com/blobby/go/77b5c3fa-81c3-4bf3-9539-2023f2739d35/downloads/Senate%20Banking%2C%20Housing%2C%20and%20Urban%20Affairs%20Com.pdf?ver=1563207206560>

<sup>7</sup> <https://cointelegraph.com/news/chinas-central-bank-prioritizes-development-of-digital-currency>

<sup>8</sup> <https://www.riksbank.se/en-gb/payments--cash/e-krona/>

<sup>9</sup> <https://cointelegraph.com/news/turkey-puts-central-bank-digital-currency-on-new-economic-roadmap>

<sup>10</sup> <https://www.coindesk.com/marshall-islands-sets-up-non-profit-to-oversee-national-digital-currency>

<sup>11</sup> See Holon's article for further discussion at <https://holon.investments/transformational-innovation-scaling-business-for-the-global-economy/>

<sup>12</sup> See Holon's article for further discussion at <https://holon.investments/whats-the-big-deal/>

<sup>13</sup> See Holon's article for further discussion at <https://holon.investments/australian-exposure-to-global-digitalisation/>

<sup>14</sup> <https://libra.org/en-US/becoming-Founding-member/#overview>

<sup>15</sup> <https://libra.org/en-US/association-council-principles/#overview>

25. Finalisation of the Association's charter will be conducted by the Founding members. Over time, operating a validator node and membership in the Association will be open to any holders of the Libra currency.<sup>16</sup>
26. To be a validator node and Founding member, applying organizations need to meet technical requirements and organizational evaluation criteria in order to satisfy the initial needs of scalability, low latency, immediacy, and proven security required to serve billions of people, which will be reviewed and approved by the Association.
27. Beyond contributing to substantial social good, there are several potential incentives for organizations to participate, including:
  - a. an active role in Association governance;
  - b. being eligible for new user incentives and transaction rebates; and
  - c. deriving dividends from Libra Investment Tokens.

## Technical requirements to run a validator node as a member

28. There are hardware and personnel requirements to run a 'self-hosted' validator node, and further details to be supplied to run a 'cloud service' validator node. In either case, the Association will provide technical support to enable establishment of each validator node type.

## Member evaluation criteria

29. Membership criteria sets a 'high bar' across three separate categories of organisations:
  - a. **Business:** must meet two out of the three following criteria:
    - i. market value greater than USD\$1 billion or USD\$500 million in customer balances;
    - ii. reach more than 20 million people per annum, multi-nationally; and
    - iii. recognised as a top-100 industry leader by third party global indexes.

Note: crypto-focused investors greater than USD\$1 billion of assets under management or USD\$100 million assets in custody for customers can be included as an exception.
  - b. **Social Impact Partner:** must meet three out of the four following criteria:
    - i. mission alignment with Libra and greater than five-year track record;
    - ii. global reach or target market of unbanked/underbanked in local region;
    - iii. has a U.S. top-100 charity ranking or demonstrated diversity of funding sources and proven social impact; and
    - iv. annual operating budget greater than USD\$50 million.
  - c. **Academic Institution:** need to meet a top-100 university and computer science department ranking.
30. The Association:
  - a. will run a due-diligence process to verify the identity of organizations and to ensure organizations that do not meet the criteria are not eligible to join the association.
  - b. may establish guidelines designed to reduce risks, such as geographical concentration of the organizations and nodes, and may require organizations to join a waiting list until sufficient diversity can be achieved.
  - c. may also, upon approval of the Association's Council, reach out to businesses that do not meet the above criteria and offer them the opportunity to join as Founding members if their participation would make a meaningful contribution to the success of the network.

<sup>16</sup> <https://libra.org/en-US/permissionless-blockchain/#overview>

31. The aggregate number of members admitted under the crypto-focused investors criteria, blockchain infrastructure companies' criteria, and exception process above will not be greater than one-third of the total members in the Association.
32. Additionally, the Association notes that the consensus protocol at the heart of the blockchain will be most reliable if the validator nodes all work independently. The Association is open to partnering with businesses that compete with each other, as the system has been specifically designed to allow for this.

### **Investment as a Founding member and operator of a validation node**

33. The initial members of the Association's Council are the Founding members and serve as the network's initial validator nodes. To be such a node, an entity needs to make an investment of at least USD\$10 million in the network through purchasing Libra Investment Tokens.
34. Each USD\$10 million investment entitles one vote in the council, subject to caps to prevent concentration of power. The Association's Council will prevent related entities from presenting themselves as two distinct Founding members in order to avoid the circumvention of the above measure.
35. Investors who purchase the Libra Investment Tokens but initially choose not to operate a validator node and later decide to start operating one will then turn immediately into Founding members, according to the same investment criteria and subject to the same voting cap.

### **The case for an Australian consortium application to the Libra Association**

36. It is highly unlikely that any one organisation (who would have potential interest for application) within Australia would meet all or most of the evaluation criteria of business, academic institution and social impact partners to qualify. The USD\$10 million investment as a validator node operator may also be prohibitive for most organisations.
37. There is a strategic imperative for an Australian member on the Association to ensure appropriate representation and regional ecosystem support for the emerging digital infrastructure and flow-on business opportunities nationally (particularly within financial services and FinTech initially). Failure to secure such a membership early may risk foreign interest intruding into domestic affairs.
38. Considering the 'high bar' criteria for membership and investment and technical requirements to operate a validator node, the best chance of a successful application is a consortium of social impact partners, researchers, technology experts, business and financial services companies located in Australia.
39. The consortium would ideally emulate the governance construct of the Libra Association and align to its mission goals, principles and objectives at an Australian level. Collectively, through the consortium's membership, it could meet the evaluation criteria and provide a clear commitment to supporting a collaborative approach to developing the ecosystem.
40. Successful membership would continue Australia's history of innovation and recognised leadership in the Blockchain space, while creating an open source environment important to engaging the emerging global financial services system. This approach would proactively support learnings from the recent Royal Commission into Financial Services and the Open Banking reforms that came into effect from 1 July 2019.

### **Holon Innovations**

41. Holon Innovations has been established by Holon Global Investments Limited<sup>17</sup> and key associates to develop a consortium of partners to support successful application of Founding membership of the Association and to operate a validator node.
42. Successful membership and validator node operations may provide an opportunity to deliver significant business and socioeconomic benefits, identify transitional impact areas and advance Australia's interests in digital innovation of financial services.

---

<sup>17</sup> [www.holon.investments](http://www.holon.investments)

- 43. Holon Innovation's vision is to enable financial inclusion in Australia through digital innovation. Its mission is to work collaboratively with its partners including businesses, technologists, Academic institutions and social impact organisations, and consult with governments and regulators to provide a "whole of system" approach to the challenges and opportunities.
- 44. Holon Innovations may evolve as an entity to ensure corporate and governance structures, including partnership arrangements, align with its consortium approach and objectives.
- 45. Modelling research is underway to indicate further specific impacts and opportunities for Australian industry, business and regulation for further discussion.
- 46. The outline below provides an indicative process and timeline for the development of the consortium and application submission:



- 47. For further information and discussion about becoming a potential partner of the consortium, please contact:

Heath Behncke  
Managing Director & Portfolio Manager  
Holon Global Investments Ltd  
Mobile: 0414 259 013  
Email: [h@holon.investments](mailto:h@holon.investments)

Luke Behncke  
Executive Chair  
Holon Global Investments Ltd  
Mobile: 0439 390 968  
Email: [l@holon.investments](mailto:l@holon.investments)