An Open and Competitive Network

Note to readers: This information is content from White Paper v2.0.*

The safety and integrity of the Libra network are at the forefront of the Libra Association's efforts. We started our journey with businesses and nonprofit organizations that share our vision to facilitate a more connected global payment system built and governed as a public good. At the same time, it is crucial to establish a clear path for membership renewal and expanded participation over time.

We believe that competition is a prerequisite for building a highly interoperable, efficient, and innovative payment system. In the first Libra white paper, we sought to achieve this goal by announcing our intention to eventually transition the network to a permissionless system. However, in the months since, a key concern expressed by regulators in a number of jurisdictions, including the Swiss Financial Market Supervisory Authority (FINMA), is that it would be challenging for the Association to guarantee that the compliance provisions of the network would be maintained if it were to transition to a permissionless network where, for example, no due diligence is performed on validators.

Here we present the approach the Association is exploring to offer new entrants the ability to compete for the provision of core network services and participate in the governance of the Libra network while ensuring the Association's ability to meet regulatory expectations. Some of the most important objectives of a permissionless network that we propose to incorporate are the ability of new entrants to compete for:

1. The provision of payments and financial services to businesses and consumers.

2. The opportunity to run independent validator nodes that increase the security and reliability of the Libra consensus protocol by having non-correlated failure risks.

3. Active participation in the governance and evolution of the Libra project.

The Libra project achieves the first objective at the outset as the network is modeled after an open technology standard, and the Libra protocol is built for a high degree of interoperability. The second and third objectives require a market-driven process that allows newly qualified Association Members to enter and compete with existing ones. In the next section, we provide a high-level overview of how this could work.

1 Exploring an Open, Transparent, and Competitive Market for Network Services and Governance

An open, transparent, and competitive process for the provision of network services and governance of the network is key for 1) expanding the membership base of the Association and 2) ensuring its renewal over time. At both stages, the Association will set open-call criteria to ensure that the selection process is objective and transparent, and also that it incorporates critical dimensions for the growth, diversity, safety, and integrity of the network.

1. **Expanding membership:** The Association plans to rely on open calls for new Members and define how many membership slots are available in each round. Potential applicants will submit an application that could cover dimensions such as:

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- Basic information proving that the applicant satisfies the membership requirements, including compliance due diligence.

- Technical information showing the applicant's ability to successfully run a validator node.

- Economic performance information that supports the applicant's past and future ability to drive growth on the Libra network.

- Financial contribution to support the Association's operating costs and incentives.

The information from the application form would be used to calculate a transparent Member Contribution Score (MCS), which would be used to rank applications. The terms used to calculate the MCS would be public before each open call is run. Such scores are commonly used in allocation mechanisms today (e.g., admission processes and advertisement auctions).

2. **Renewing membership:** The Association's goal is to ensure that new Members can enter and compete for the provision of core network services and contribute to governance while existing Members can renew their participation based on good performance — both in terms of running a validator node and in driving adoption. Over time, the Association could transparently modify the MCS calculation and selection process to meet new needs and to balance continuity with change, while ensuring it remains based on objective and non-discriminatory criteria. All of these decisions would be made while taking into account antitrust and competition issues and regulatory compliance requirements, and in accordance with the governance procedures under the Charter.

In the event that a Member undermines the integrity or safety of the network, the Association could have a mechanism for removing the Member from the validator set, and, in extremely severe cases, for expulsion from membership. Removal from the validator set might also be triggered by material violations of the membership eligibility criteria, regulatory issues, criminal proceedings, or interference with the health and integrity of the network. The Association will also have a process to commence an off-cycle open call for new Members in the event of a severely underperforming network or other major governance challenges.