LEONDRINO SERIE

Good Money

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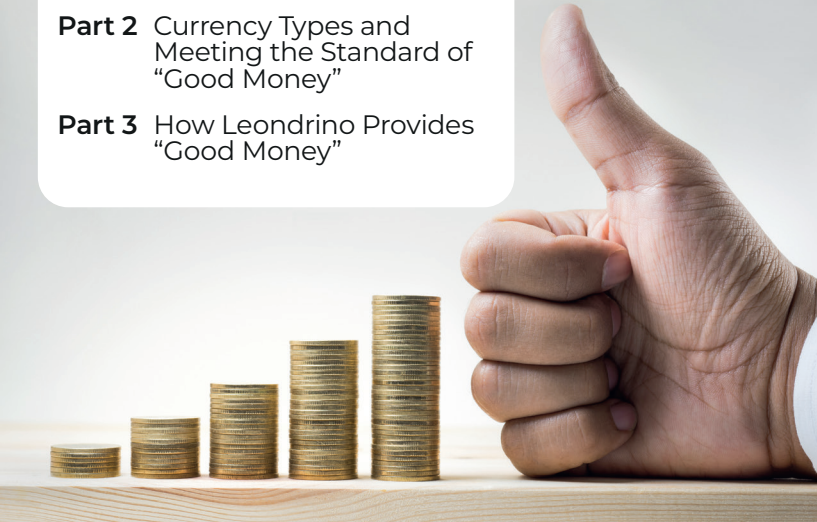
Content



ANNOTATION

Further Leondrino series in preparation.
Next issue: The Leondrino Lifecycle

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WHAT IS "GOOD MONEY"?

Dec 2, 2016 · 6 min read *by Newman Banks*

The direction and speed of growth in innovation in recent years has been characterized by a massive shift in how traditional services are viewed and understood, especially in envisioning new and inventive ways of delivering traditional services. Think about what Uber has done to the taxi business, how Airbnb changed the hotel business or even how the education sector has been able to expand and extend reach via Massive Open Online Courses through providers such as Stanford and Princeton supported Coursera. The common aim that all these innovations share is to improve on existing, well established services using new technologies.

There has not, however, been any meaningful adoption of such new innovations or breakthroughs on the most basic of services we use every day. We engage in this service completely and naturally without giving any thought to the process. It is the daily process of making transactions, that is, the purchasing of goods and services. We are virtually mindless in our participation in the exchange of value (money for goods and services) and the complex system of transacting, sometimes through multiple "middlemen" (e.g. credit card companies and banks), and the multiple silos money must pass through before completing the transaction journey from one storage location (the buyers bank) to another storage location (the sellers bank). We use money every day, but hardly question its inner value, where it comes from, what truly

gives money its buying power and why is it general accepted. That raises the question, if we have an opportunity to reinvent money using today's technologies, what would it look like? Would we not like to grow the use of more seamless forms of value exchange using mobile devices without a physical exchange of paper or plastic mechanisms? Moreover, would we not like an instant payment settlement, including redemption of points, application of discounts, as well as the purchase of goods and services with the currency we own, even when the offering is based on a different currency? In light of general concerns of inflation, particularly as impacted by policy and politics, wouldn't it also be great to have greater confidence in the enduring value of our stored currency, that is, our savings?

There are some problems with the current and long-established structure of the monetary system which have played an important part in the past and present instabilities of the world's economies. Frankly speaking, governments' behaviors and monetary policies are subject to political influence with central banks, sometimes including occasions when banks step in to bail out governments by extending time to adapt policies to economic conditions, or engaging in currency battles to devalue the domestic currency to foster exports. Think of how QE (Qualitative Easing) policies in both Europe and the United States in the last few years impacted and manipulated inflation rates, or more recently think of the impact 'Brexit' had on the world currency market! These are just two examples, however, they highlight how purposeful manipulation and political action can create instabilities in the economy. Over

the long-term, these kinds of actions can build up unpredictable inflationary impact that can undermine the most precious asset that central banks possess: their credibility. Loosing this credibility exposes a major flaw in the current monetary structure that a large part of the population is not aware of. Acceptance of fiat currency is actually embedded in our very culture, but that acceptance has limits. The money that we base all our economic activity on, is itself, not based on any value other than the credibility of the central bank and the fiat money monopoly of the "state", which is expressed in the Dollar, Euro, Yen, Yuan, etc.

Historically, only a few attempts have been made to solve the dilemma presented by our well-established monopolistic monetary system. It is indeed a very difficult matter to find alternate, trusted substitutes for the valued asset that we associate with "our money". In fact, when thinking about the properties Good Money (in the sense of the abstract concept) should have, general reactions and responses include:

- Good Money should derive its value from a balanced and relative worth perspective of real goods and services, not just from the confidence, or lack of confidence, that people may have in elaborately designed and colorful paper.
- Good Money must allow for the rapid exchange for goods and services with close to zero transaction costs to the buyer or seller.
- Good Money should be reasonably stable related to real

goods and services, as well as other currencies.

- Good Money should be flexible enough to handle all the tasks expected to be performed by such an asset instrument in an economy.
- Good Money should clearly reflect and represent the value of goods and services without the need for further investigation and examination of the price of goods and services relative to other values.
- Good Money exchanged in a transaction should be transparent and represent relatively equal values of goods and services, for that currency. Neither side of a transaction should have an unfair advantage over the other.
- Good Money should also be global, in the sense that it should be possible to obtain a similar quantity of goods or services for a similar amount of money (in relative terms) anywhere; Good Money should represent a certain "standard of value".

Defined in the context of a question, what standard can be used as the basis for the value of money? A currency with unpredicted volatility discourages use by the consumer as well as the seller. There can, however, be a predefined path for currency management. In a free market, i.e., commercial, context, Good Money should be expected to fluctuate, increase or decrease in its value, but such fluctuation should be guided by monetary policy that has been communicated to and understood by its "currency owners", and should not deviate from stated expectations without clear and proper advance communication from the currency is-

suer. For example, as prospective Good Money issuers, consumer products-oriented companies might prefer their money to have a higher inflation rate, to encourage more rapid spending by its consumers/customers before the currency value is reduced. On the other hand, wealth management and insurance companies might insist on a monetary policy that maintains value over time with a much lower inflation rate, perhaps even lower than the general inflation rate, thereby actually increasing the relative and real value of its currency over time.

Despite their academic origination, monetary policies for any currency have decisive implications on how people handle such currency. Firstly, on one hand, the absence of any transparent monetary policy discourages people from using such currency at all. Such currency cannot be trusted, and it can become too difficult to understand its current value, nor is its potential value in the future easily understood. And when a currency stops accurately reflecting the value of goods and services, it requires people to stop and contemplate the value of such currency for any individual transaction. Once currency becomes unpredictable, at some point people will begin to look for alternatives. From a global perspective, and depending on cultures, currency alternatives can include anything from precious metals to even cigarettes. In some areas of the world, where currencies have lost all credibility, the barter system is alive and well. Secondly and conversely, Good Money, currency that has well stated and understood monetary policies, earns trust, increases credibil-

ity and motivates “currency owners” to engage in transactions with confidence based on an understanding of the real value of goods and services in the context of the value of Good Money.

The bulleted list above, which outlines expectations for Good Money, can be difficult to meet for any concept of money. As a matter of fact, the fiat money that is currently issued by governments today does not comply with even the first condition for Good Money, as it derives its value, maybe better described “acceptance”, merely from the cultural or historical confidence the people have it. Therefore, when the confidence of people in the central bank of a country drops, then a decline in its value is almost a direct consequence. In some developing areas of the world a country’s currency can lose its value virtually overnight based not on the value of goods or services, but on unrelated actions – politics, monetary policy or otherwise.

This article is the beginning of an occasional series in which we discuss money, its history, its forms and its future. Naturally, this is only a subjective point of view, but we would be very interested in your opinions as well. We invite you to contribute more ideas and perspectives on the properties that Good Money should have. Also, if you have an opinion about any of the statements we have made, let us know. Sharing and discussing ideas will always improve the original thought. In the next article, we will present some approaches that were made in the past which have evolved into the concept of Good Money.

CURRENCY TYPES AND MEETING THE STANDARD OF "GOOD MONEY"

Feb 24, 2017 · 7 min read *by Newman Banks*

In the last article, we outlined the characteristics of how we define Good Money. The most important properties are:

- Good Money should derive its value from real goods and services.
- Good Money must allow for the rapid exchange of goods and services with close to zero transaction costs to the buyer or seller.
- Good Money should be reasonably stable.
- Good Money should be flexible.
- Good Money should clearly reflect and represent the value of goods and services.
- Good Money exchanged in a transaction should be transparent and represent relatively equal values of goods and services.
- Good Money should represent a certain "standard of value".

Meeting each standard for all of the properties listed above is difficult for any concept of money. In fact, today's government issued (fiat) money cannot comply with even the first property! Fiat currencies currently derive their value from the confidence people have in that money. Fiat currency value can fluctuate, not necessarily based on the actual value of goods and services, which

retains relative stability over time, but based on confidence that people have in their central bank, retail banks and governments. Different approaches and alternatives to fiat money have been tried throughout history, from barter systems to today's evolving cryptocurrencies. In this article we offer some thoughts on these alternatives and discuss how they meet or fail the properties presented above. Let us consider a barter economy, cryptocurrencies, local currencies, time-based currencies and customer loyalty programs.

Barter Economy:

In today's economies, one function of money is to set a price for all goods in units of money. In a Barter Economy, two parties have to agree on the interchange rate between each pair of goods, for each transaction. This is an inconvenience only surpassed by the impracticality, especially in the case of physically having to exchange goods. Not only must each transaction value be bartered, the method and means of exchange, including time and location must also be negotiated. Consider the challenge of large or heavy objects being exchanged or if the exchange rate demands fractions of the goods to be exchanged.

In the case of a transaction in a Barter Economy, the value of goods exchanged establishes a real goods-based equivalent to monetary value, and that value is derived directly from goods, or services, exchanged. This is a highly desirable property, because it ties the economy directly to the real economy without,

generally speaking, the space for political influence. However, this type of economy is highly impractical because it does not allow for rapid and efficient exchange of goods and services.

Cryptocurrencies:
On January 3, 2009, a new currency innovation was introduced to the public: the first digital currency which does not have a physical form (such as coins or notes). This innovation, the first true cryptocurrency, is called Bitcoin. However, what has proven to be even more impressive than the currency itself is the new technology upon which it was based – "Blockchain". The concept of the Blockchain uses distributed ledgers to enable peer-to-peer transactions. While Bitcoin remains largely the same as it was when introduced over eight years ago, Blockchain and Distributed Ledger Technology (DLT) has grown and evolved. Using Blockchain or some version of DLT there are now about 700 different digital currencies, with Bitcoin still being the best-known.

Bitcoin has some interesting properties, in particular the fact that there is no central authority (bank or government) having the power to manipulate the currency. In addition, Bitcoin enables very low transaction costs, (in spite of growing energy cost increases to keep the network up and running – which, if it continues to be neglected, may ultimately have a negative impact on transaction costs), and Bitcoin-based transactions can be divisible into interminably small fractions. However, the

two main disadvantages of Bitcoin are its volatility (gaining and losing value over short periods of time) and that a real goods-basis of value does not exist for Bitcoin. Bitcoin's value is largely based on speculation and its own intrinsic trade value. This positions Bitcoin outside the real economy and most companies who accept Bitcoin recognize the associated risk and volatility and therefore trade them into local fiat currency soon after receiving the Bitcoin payment. The consequence is that Bitcoin offers a very short lifecycle and cannot fill the requirements of a reliable currency that is well suited for storing values.

Local Currencies and "Scrips":
Examples of local commerce being supported via the issuance of unique local currencies, or scrips, are plentiful. Over the years the military, especially at oversea bases, and famously, coal mining companies, have used scrips both as payment of wages, and for exchange of goods and services within certain restricted zones. Broader interpretation of local currencies and scrips can be understood in the context of bus tokens, festival ride tickets, cruise line vouchers, etc., all of which carry with it significant restrictions in terms of valid places for redemption.

While Ada Colau was running for office as mayor of Barcelona, which she won in June 2015, she popularized the idea of a local Barcelona currency which would be valid as payment in participating stores in the city. Further, the concept promoted that local government employees should receive part of their

salaries in this local currency, with the essential idea of directing some of the purchasing power of the locals back to the local economy.

Similar concepts of local currencies which are valid only in some geographic regions have been seen for some time and are currently discussed in the Pavel Bains article "Why Cities Will Soon Choose Digital Currency Over Fiat Money" (http://www.coindesk.com/cities-will-soon-chose-digital-currency-fiat-money/).

In general, local currencies have no backing from any level of government, gaining its value only from the promise to be exchanged into goods in the geographical region. Therefore, these local currencies have fundamentally the same properties of fiat money but with an added deficit due to local or other restrictions.

Time-based Currencies:
The concept of time-based currencies has social roots and is an exchange system similar to a barter system. However, instead of an equitable exchange of goods or services, the value is based on a person's contribution of time. In a particular time-based currency system, that contribution of time is given a standard unit of value, for instance a "person-hour". This unit of value is the foundation for transactions or exchanges. In exchange for a good or service, a person would pay a certain number of time-based units which would ultimately be

redeemed though that person's time (or that of another person if the original person making the transaction could find another person to fulfill his time obligation).

This system of using time-based currency was conceived in the 19th century, and has been implemented with varying degrees of longevity (and success) since then. A more recent illustration of this system might be seen in experimental communal or co-operative communities of the second half of the 20th century. In these communities, each of its members is expected to contribute time for the benefit of the community. The more time an individual contributes, the more "currency" is earned, and the more buying power that person gains.

Despite the fact, that time-based currencies have a defined and understandable baseline for each unit of value, a "person-hour", it is actually not well-suited to scale beyond a small well-defined community with a widely accepted value for a unit of value. There would be too many variances between communities and regions and, in fact, market segments. In fact, for large scale applications, it would be virtually impossible to determine the exact value of person's hour, which depends on that person's skill set, speed at which the work is accomplished, and the intended task to be completed. As a result, values for time cannot be uniform and therefore prices (costs in terms of time units) are not transparent. In addition, time and energy must be spent searching to find a competent person to perform the intended task. This

system therefore quickly devolves into bartering based on skill sets and availability. In this scenario, time truly is money!

Customer Loyalty Programs:

Though not strictly legal tender, loyalty programs, especially those that use points, illustrate an offer of a type of currency to customers of that company. Such programs can be understood as a company offering a portion of its products for free. In a loyalty points program, when a good or a service is purchased, that customer can be rewarded with a certain number of points and, with those points, is given a future right to acquire a portion of another of that company's product, in whole or in part, based on the number of points required and redeemed. But this right may not be eligible for exercise until certain other conditions are also met, including a minimum purchase amount requirement. In addition, points may have time factors applied to them. The value of the points may decline over time, even dropping to zero upon reaching a full expiration date. Additionally, the rights assigned to a customer via a points program cannot be traded in the marketplace with other customers. Customer loyalty programs are increasingly personalized to the individual customer and customers are restricted from combining points with other customers. However, from the standpoint of Good Money, points programs have two very desirable properties: they are based on real products and the value of these currencies is transparent.

Leondrino Exchange:
At Leondrino Exchange we are developing a cryptocurrency which unifies all the properties of Good Money into one type of currency. Leondrino Exchange's offering also unifies the strengths of the concepts of Good Money listed above and mitigates their weaknesses.

This article is the continuation of an occasional series in which we discuss money, its history, its forms and its future. Naturally, this is only a subjective point of view, but we would be very interested in your opinions as well. We invite you to contribute more ideas and perspectives on the properties that Good Money should have. Also, if you have an opinion about any of the statements we have made, let us know. Sharing and discussing ideas will always improve the original thought. In the next part of this series, the Leondrino Exchange concept of Good Money will be explained in detail.

HOW LEONDRINO PROVIDES "GOOD MONEY"

Jun 8, 2017 (with some revisions from Dec 2019) · 7 min read

by Newman Banks

In previous articles in this series, we discussed the definition and characteristics of Good Money. The most important properties require that:

- Good Money derives its value from real goods and services.
- Good Money must allow for the rapid exchange of goods and services with close to zero transaction costs to the buyer or seller.
- Good Money should be reasonably and predictably stable.
- Good Money should be flexible.
- Good Money should clearly reflect and represent the value of goods and services.
- Good Money exchanged in a transaction should be transparent and be easily recognized as relatively equal values of goods and services.
- Good Money should represent a certain "standard of value".

In this third article of the series, we want to talk about how the new concept of the privately branded digital currency, Leondrino, combines all the properties outlined above and is therefore able to meet this new standard of "Perfect Money".

The essential idea of creating this new digital currency is foundationally tied to the first property – Good Money has to derive its value from real goods and services. This property is something that almost all cryptocurrencies and even government issued fiat currencies fail to satisfy. In fact, each branded Leondrino derives its value directly from a predefined and identified good or service (or set of goods and/or services). Specifically, this means that the exchange one unit of branded Leondrino is defined in terms of an equal value of a specific good or service. Further, this value is enforced through a binding legal contract between the company producing the good or service and the issuing service company of the Leondrino currency (Leondrino Exchange or one of its licensees). There is some variation built into the value of the private branded Leondrino so that the issuing service company of the specific branded Leondrino can manage inflation/deflation aspects of the digital branded currency. Therefore, the unit value of the Leondrino has a controlled and limited ability to deviate from the real value of the underlying good or service. Note that, as mentioned, this good-based value property of Good Money is not incorporated into any other digital currency, where the value is often derived from mining algorithms and CPU times. As essential as this property is, it is not sufficient by itself as a base for digital currencies to meet our full definition of Good Money.

The next property of Good Money is related to the ability to enable rapid and low-cost transactions. Once a value-based infrastructure is established and operational, the next step is to

ensure that sending and receiving digital money generates minimal transactional costs to the participating parties. Paying for a good or service in Leondrino follows essentially the same process as any electronic transaction today – nothing more than making payment to the company for a specific good or service, except the typical merchant transaction fee using Leondrino is close to zero. And this holds true for international transactions worldwide – without substantial additional "foreign transaction" fees. The payment is processed based on a predefined value of the branded Leondrino currency, the parties are verified, payment is reconciled, and the transaction is fully settled almost instantaneously. The only part of the transaction that might take time is the possible shipping of a purchased good.

The third property of Good Money is stability, that is, currency that maintains low volatility and offers highly reliable and predictable value over time. Stability in value is often the Achilles heel of digital currencies. In fact, the most famous digital currency, bitcoin, has fluctuated heavily in the years since its inception. At the end of 2013 a single bitcoin unit (which can be sold/traded/exchanged in fractional units) reached a high of over $1,000 USD, only to lose value in the subsequent year, decreasing to $250 USD for a single bitcoin unit. Since then bitcoin has been steadily trending higher in value, driven by an increasing acceptance of the bitcoin in the marketplace economy as well as in financial circles. Despite rumors about bitcoin Exchange Traded Derivatives (ETDs*), acceptance has grown

to the degree that there is the possibility that citizens at least in one city in Switzerland, may able to pay their local taxes with bitcoin. Because bitcoin value is intrinsically subject to speculation and ETD volatility, it is not difficult to imagine that if this acceptance comes to a standstill, or even wanes, a sudden and potentially significant decrease of bitcoin value will follow. This direct relationship to the property of stability of Good Money is where Leondrino demonstrates value as a currency and even as a prospective investment asset. Due to the direct coupling of Leondrino to real goods and services, market forces will tend to keep the value of Leondrino closely aligned to the prices of the underlying goods and services. Additionally, there is an algorithm built into the brand-specific monetary policy which places controls on the fluctuations of the value of each privately branded Leondrino. The forces of supply and demand are monitored for each privately branded Leondrino, so that both the long-term value of the Leondrino and the short-term variations of the price can be managed according to the brand-specific monetary policy against the value of the underlying goods and services. Apart from keeping prices stable, timely management and thoughtful application of each brand's monetary policy also provides sufficient and appropriate liquidity on the buy side as well the sell side of the privately branded Leondrino as a stable and relatively predictable investment asset, aligned with the health and growth of the brand which has issued the Leondrino.

* An Exchange Traded Derivative (ETD) is a financial instrument whose value is based on the value of another (potentially variable or even volatile) asset, and that trades on a regulated exchange.

Next on our list of properties of Good Money is the need for flexibility, and this is one of the most prominent features that make digital currencies so attractive. Using Leondrino it is possible to establish a great variety of tailor-made digital currencies according to a given purpose. For example, startup businesses can raise financing through the issuance of their own digital currencies from which early investors can derive benefit by acquiring an asset which is based on the prospective success of the startup. Offering digital currencies as an investment asset contributes to a broader democratization of startup financing and provides a pathway for small "investments" by many people (think crowd sourcing). Another flexibility is to design digital currencies exchangeable and valid only within certain geographies. This concept would directly foster benefits to the local economy, which can also include the local populations. Currencies can be designed to be time-limited, meaning they are only valid for exchange for a short period of time. This concept will incorporate virtually no investment advantage for the currency holder, but would drive more immediate spending, which would directly help companies overcome short-term liquidity challenges. Conversely, other currency strategies could include a long-term view, where future services can be paid for at today's "rates" but not spent for those services for months or even years in the future. Consider a highly conservative monetary policy, for instance, in a "health dollar" which is limited to an annual inflation rate of its currency to less than 2 %. Not only would the real cost of healthcare be restrained, future costs for healthcare services could conceivably be less than the average

inflationary rates of the Consumer Price Index – if paid for by "health dollars".

The property of clarity of Good Money related to the prices for goods or services is a consequence of directly linking the value of the Leondrino to the value of real goods and services. This direct linking enables the market forces of supply and demand to find equilibrium in the exchange rate of Leondrino that reflects not only the current market value of the underlying goods and services, but is also aligned with expectations for maintaining equilibrium in the value of Leondrino and the underlying goods and services in the future. Clearly identifying value through directly linking Leondrino and real goods and services provides a window into direct price discovery without the need for further investigation.

Building on clarity of value is a primary advantage of Leondrino and corresponds to the sixth property of Good Money, an understanding of the equality of values exchanged – money for goods. In a barter economy it is impossible to keep track of the exchange prices between all the (variable, unequal and various) goods exchanged across all parties. As a matter of fact, for 1,000 goods exchanged, there are virtually hundreds of thousands of possible exchange price scenarios. This challenge is solved by the common ability of all users of Leondrino to recognize its clear and transparent value – and it is solved in real-time. Conducting a transaction using Leondrino combines the advantages of barter economies, which are based on tangible goods, with the comfort

and familiarity of working with traditional fiat money. However, Leondrino cannot be manipulated by central banks which is crucial for Good Money.

Finally, the last property of Good Money must reflect a certain and consistent expectation as a standard of value. Establishing a "standard of value" (a well-defined and understood exchange value – equality of money for real goods) is one of the greatest advantages of Leondrino. Good Money, which derives its value from real goods, can be quickly sent anywhere in the world, and market forces drive that money to where the demand for Good Money is strongest, especially in the context of an understood standard of value. A clear standard of value also drives acquisition (without regard to geography or international monetary complications or barriers) of real goods and services to where they best meet an understood standard of value. Consumers are most satisfied when they know they have acquired a good value. This possibility of unencumbered international trade using Leondrino enables a truly global economy based on Good Money as a vehicle to acquire a solid value.

This article is the last in this "Good Money" series. In the future, we will highlight some details of Leondrino Exchange's technologies and its algorithms and provide some emphasis on how private branded Leondrino currencies can contribute to the establishment of Good Money economies – and the prospect of creating "Perfect Money"!

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