Our position

Digital Euro

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Executive summary

The Digital Euro proposal aims at further diversifying the EU payments landscape, providing an alternative choice for consumers while safeguarding the status of central bank money as a monetary anchor. While the EU's effort in fostering innovation in the payments market is a positive development and a Digital Euro has the potential to be complimentary to existing payments solutions, further attention needs to be given to ensure European citizens benefit from the Digital Euro.

For the Digital Euro to truly deliver its added value to EU citizens and the EU economy, the co-legislators should thoroughly examine the legal and market implication of the Digital Euro, in light of the numerous and ongoing changes to the legal framework. Furthermore, further thoughts need to be given on how to address and mitigate the risks introduced by a Digital Euro. Therefore, policymakers should consider both the monetary policy implications and real-life practicalities for consumers and the financial system, such as data protection and privacy, anti-money laundering / combating the financing of terrorism (AML / CFT) considerations, risks to consumer protection and inclusion, as well as risks to financial stability and financial disintermediation. It is also crucial to ensure interoperability across jurisdictions and platforms, as well as continue exploring the role that wholesale Central Bank Digital Currencies (CBDCs) can play in driving innovation and efficiencies in wholesale markets.

Introduction

The European payments market and landscape are currently undergoing significant changes. There has been increased competition, with more providers and solutions available than ever, and the European Union is currently reviewing a number of key legislative texts, such as the Second Payment Services Directive (PSD2) through the Payment Services Regulation (PSR) and the Third Payment Services Directive (PSD3), as well as through the Instant Payments Regulation. The European Commission states that the Digital Euro can further enriched the EU's payments landscape by complementing existing instruments and further diversifying the market.

The EU's policymakers and central bankers' efforts to foster innovation in the payments ecosystem and to protect consumers and financial stability, are appropriate. However, for a Digital Euro to benefit European citizens and the economy while also mitigating risks to the systems and consumers, a number of considerations need to be further assessed. Moreover, in a possible Digital Euro ecosystem, it should be very clear how private sector payment and deposit solutions would go hand in hand with it.

Implications and alignment with existing legislation

The EU payments landscape is currently the subject of multiple changes, such as the ongoing review of the PSD2 (through the PSR and PSD3) or the recently agreed Instant Payments Regulation – which aims at accelerating the rollout of instant payments in euro, making them affordable, secure and processed without hindrance across the EU.

In that context, the co-legislators should assess the implications of the Digital Euro proposal in its broader context, notably looking at the applicability of the PSD2 rules to Payment Services Providers

(PSPs), Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs). Furthermore, the growing prevalence of instant payments, and their foreseen rise in the EU in light of the recent Instant Payments Regulation, may also limit the interest and use of a retail Digital Euro. Thus, co-legislators should thoroughly examine the legal and market implications of the ongoing changes in the EU payments landscape to ensure alignment and the best use of resources to benefit consumers. Furthermore, clarification is needed within the proposal on the relationship between Digital Euro users and the European Central Bank (ECB), notably as it relates to claims, rights, and liability.

Managing and mitigating risks

The European Commission notes that 'the digital euro will support a stronger and more competitive, efficient and innovation European retail payments market and digital finance sector' as well as 'contributing to further enhance the resilience of the European retail payments market'. While this may be true, a retail Digital Euro (and retail CBDCs in general) also introduces new risks that must be managed (eg balance sheet disintermediation, run on deposits, privacy and data protection risks, technological challenges associated with protecting custodial wallets, etc).

Therefore, policymakers should consider both the monetary policy implications and real-life practicalities for consumers and the financial system. In this context, design choices will have major consequences. Although the co-legislators should not dictate technical solutions, we encourage them to think through the balance a retail Digital Euro should aim for.

Optimising privacy

Privacy and data protection have been identified, notably through the public consultations held by the European Commission, as a priority concern for European citizens. It will be important to alleviate citizens' concerns to ensure this new method of payment is trusted by end-users. However, and as noted by the European Commission in its proposal, the retail Digital Euro needs to find the proper balance between ensuring a high-level of privacy and data protection for consumers while also supporting and strengthening the existing mechanisms to fight against money laundering and terrorism financing as well as preserving Europe's financial stability and fostering innovation.

We therefore welcome Chapter VIII of the Digital Euro Regulation, which outlines the privacy and data protection-related requirements for processing by PSPs as well as by the ECB and national central banks and providers of support services, and Chapter IX, which outlines the anti-money laundering requirements, particularly as it relates to offline Digital Euro transactions. However, further attention will need to be given to the practical implementation of these provisions, taking into account compliance processes that PSPs will have to set, particularly as it relates to offline payments. Additionally, further alignment with the General Data Protection Regulation (GDPR) is of crucial importance. It should be clarified that personal data could still processed for other purposes than the one provided under Chapter VIII, such as value-added services, provided that this is done in accordance with other legitimate grounds available under the GDPR.

Furthermore, policymakers should further clarify the interaction of the requirements on privacy and data protections with the efforts to limit the use of the Digital Euro as a store of value.

The Joint Opinion[1] of the European Data Protection Supervisor (EDPS) and the European Data Protection Board (EDPB) further raises a number of personal data protection concerns that are of relevance and should be considered.

Interoperability across jurisdictions and platforms

As noted by the European Commission, a number of jurisdictions are exploring potential CBDCs in parallel. It is critical that global interoperability be taken into considerations and therefore encourage the co-legislators to consider any unintended consequences for cross-currency payments and cross-border payments, in light with the G20 agenda.

Furthermore, article 26 of the Digital Euro Regulation appropriately stresses the importance of the interoperability of standards governing Digital Euro payment services with relevant standards governing private digital means of payment, as well as the fact that this interoperability may be supported by the use of open standards. Indeed, the Digital Euro should allow value to transfer seamlessly between different platforms and easily integrate into existing solutions (including existing payment schemes and rails), both domestically and internationally. Divergent operating models would otherwise result in fragmentation of the EU and international payments landscape.

Enhancing consumer experience

The Digital Euro should not create additional technological challenges, risks or costs to consumers. These must be further assessed to mitigate the potential downsides for consumer protection. In particular, the technological challenges and risks associated with the Digital Euro could lead to consumers being more exposed to fraud or loss.

Furthermore, the European Commission highlights financial inclusion as one of the key policies of the EU the Digital Euro proposal will support. However, this argument should be further and more clearly articulated, notably in light of the above risks and challenges for consumers. While retail CBDCs have potential benefits in jurisdictions where much of the population may not have easy access to bank accounts, it is not clearly articulated for the Digital Euro.

Additionally, for the Digital Euro to be positively received by citizens, it is of the utmost importance to build trust with end-users. Therefore, the phased rollout proposed in the legislation is appropriate, as it aims at prioritising functionalities that reduce complexity and burdens for users. Moreover, the text should go further in promoting and guaranteeing consumers' choice. For instance, merchants should be required to display all available payment options on their platform. Conversely, national and European regulators and institutions should ensure appropriate steps are taken towards education of consumers on the attributes, implications, costs and risks of the Digital Euro, to further empower EU consumers to make informed choices.

Ensuring financial stability and preventing disintermediation

As the European Commission notes in its proposal, the Digital Euro Regulation needs to properly mitigate the risks posed by financial disintermediation and the risk to financial stability. Indeed, the

[1] EDPB-EDPS joint opinion 02/2023 on the proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro (adopted 17 October 2023): https://edpb.europa.eu/system/files/2023-10/edpb_edps_jointopinion_022023_digitaleuro_en.pdf

retail Digital Euro should protect private investment and credit creation, by not crowding out private investment and innovation in payment systems, which foster resilience of the financial system through diversification of platforms. Similarly, private credit creation is fundamental to economic growth, job creation and social mobility, and it should not be impacted through the establishment a Digital Euro that deflects consumer deposits towards the central bank.

Whilst the European Commission's acknowledges the key role intermediaries such as banks should play in the Digital Euro ecosystem, the establishment of a Digital Euro will likely result in incremental obligations and added costs on regulated financial institutions. The co-legislators should further assess the implications for banks, ensuring that the Digital Euro does not result in an unlevel playing field, where only those institutions that can afford connectivity costs serve as intermediaries. In that regard, the compensation model for the Digital Euro does not take into account the costs (eg research, development, implementation) to be incurred by merchants and PSPs alike to provide services to end-users. It would be more appropriate to allow the market to determine the appropriate charges.

Furthermore, the provisions limiting the Digital Euro's store of value function and the limits on Digital Euro holdings are appropriate. However, it will be important, when defining the limits imposed, to assess the impacts to the banking intermediation model. Furthermore, any increases to the holding limits should be discussed with financial institutions and introduced with appropriate transition and implementation periods.

Wholesale CBDC (wCBDC):

While the Digital Euro proposal does not aim to cater for wholesale payments (payments between financial intermediaries, payment services providers and other market participants), the introduction of a retail Digital Euro could, and most likely would, result in knock-on effects for wholesale markets.

The adoption of wCBDCs could enhance the efficiency, resiliency and effectiveness of capital markets, including (but not limited to): faster payments and settlement; more efficient and transparent as well as less costly cross-border transactions; optimisation of financial resources; reduce risks in settlement processes and systems, particularly in the case of securities are natively issued with Distributed Ledger Technology (DLT).

Therefore, central banks, in collaboration with the private sector should continue to explore the role that wCBDCs can play in driving innovation and efficiencies in wholesale markets. Furthermore, as wCBDCs are expected to operate alongside legacy instruments and systems, it remains important to ensure broader interoperability with the broader financial market ecosystem.

Conclusion

In order to ensure the Digital Euro provides benefits and value to EU citizens and the EU economy, the co-legislators should ensure the appropriate balance is found in addressing the various risks to financial stability, financial disintermediation, consumer protection, and data privacy and protection. Although the co-legislators should not dictate technical solutions, we encourage them to think through the balance a retail Digital Euro should aim for to ensure the creation of a safe, secure, fair and competitive EU payments market.