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EBF response to the European Commission's Targeted Consultation on a digital euro

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Executive Summary

The European Banking Federation (EBF) welcomes the opportunity to submit input to the European Commission's consultation regarding a digital euro. This is a key topic for the European banking industry as the digital euro seeks to respond to the unprecedented speed of transformation in the digitalisation of the economy and payments, and has the potential to **fundamentally change the banking system**. More particularly, a digital euro could pose **major challenges** pertaining, for example, to financial stability, crowding out of private solutions, finding a sustainable business model for intermediaries and responding to user needs. All these challenges should be duly and timely assessed and mitigated.

Currently, European banks offer consumers and businesses a large variety of payment methods and instruments to cover their different payment needs. For a retail digital euro to complement these payment offerings, it must provide a clear **added value**. A digital euro should enhance and support innovation and therefore not be limited and targeted to the traditional use cases (Person-to-Person, Point-of-Sale and e-commerce). Such limitation would bear the risk of a digital euro being 'outdated' from the start, therefore, it is important that a digital euro is **future-proof** by design. A digital euro should complement the current payments offering and not compete with it, based on the "no crowding out" principle. For a digital euro to achieve this, it should be functionally different from the existing payment solutions and be equipped with a sustainable remuneration model for all parties involved, especially for the regulated Payment Service Providers that will distribute it.

Given the above, a digital euro should be targeted to use cases/payment needs that are currently not covered by the market. In this respect, we see opportunities for a digital euro to bring added value in:

- **Payments with offline functionality**, where a digital euro could provide the advantages of digital payments in situations where there is no connectivity.
- **Innovative payments**, which could include programmable payments. It is fundamentally important that a digital euro enables private intermediaries to develop new value-added services. For all these use cases, the ECB should only provide a digital euro as a "raw material" in a way that allows private intermediaries to develop services, as the private sector is much better situated in developing such solutions. A retail digital euro should leave ample room for intermediaries to develop business models for the development of these use cases. A basic core infrastructure would allow for intermediaries' own design choices for value-added services around a digital euro, thereby promoting a **market-oriented, resilient, and diverse ecosystem**.

The design of a **sustainable business model** is vital, as the economic costs of implementation might crowd-out existing market actors and prevent the creation of these innovative and competitive service offerings. An appropriate compensation model is critical for commercial banks also because a retail digital euro may have considerable impact on the current bank funding model.

Concerning the digital euro's potential impact on financial stability and on banks' role as intermediaries, we are particularly concerned by a risk of both **cyclical and structural disintermediation**. The outflow of bank deposits could be considerable in the event of financial stress of a particular institution or a broader financial crisis. In the case of

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structural disintermediation, the shift of retail bank deposits to digital euro could have unintended consequences on the role of banks in maturity transformation and the funding of the economy, as well as on the ability of fixed rates financing. The effect could be important in the euro area banking system because it is based on retail deposits. We appreciate the ECB's intention to create tools to safeguard against such risk. However, such tools need to be appropriately designed. We therefore urge to abandon the idea of a soft rate disincentive **in favour of a hard cap** which could be enshrined in a legislative framework, ensuring that it is robust and maintained even in times of financial stress. A hard cap for digital euro holdings could be an effective way to avoid the adverse effects of large-scale deposit replacement, therefore averting structural disintermediation and its considerable effects on Europe's financial stability. In addition, it is important that the regulatory balance sheet ratios and stress scenarios in connection with a digital euro are adjusted by the regulators to avoid any negative impact on banks.

Considering the possible **legal tender status of a digital euro**, we consider that the success of a digital euro depends mainly on the added value it would create, rather than its legal tender status. However, we see some advantages in regulating the legal tender status at Union level as it implies that the same rules and exceptions will be applied within and across the EU. In this way, legal certainty and a level playing field could be guaranteed. Having said that, a legal tender status should not be understood as mandatory acceptance in all cases, and both payees and payers should always retain contractual freedom to accept or use a digital euro. A mandatory acceptance could lead to a competition issue with private alternatives.

We believe that **digital euro transactions should have the same standards for data privacy and data protection as digital payment means currently uphold**. Existing digital payment means already have very high privacy standards that comply with data protection and privacy provisions. Data processing is always done based on the appropriate lawful basis, in line with the GDPR. It is important that the authorities' focus on privacy does not translate into a general ex-ante restriction on the availability and use of data from digital euro transactions. Access to payment transaction data is essential for banks to fulfil their compliance obligations, for instance with regard to AML/CFT, fraud prevention and detection. Further, customers should be able to consent for intermediaries to use their payments data in order to benefit from value-added services offered by banks. Appropriate access to data for the involved intermediating banks is fundamental to support the provision of secure and convenient financial services that respond to customer needs, particularly within the data economy.

Irrespective of the design of a digital euro, **all the requirements of Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) rules must be adhered to**. Banks play an important role in countering money laundering and terrorist financing and can ensure an added value in terms of KYC. They have significant experience in this field. It is of paramount importance to clarify and understand the need that a digital euro will respond to, in order to understand how and when banks can play a role in AML/CFT controls, as well as the concrete AML risk associated to it.

Finally, multiple policy goals for a digital euro have been put forward. While a digital euro could serve a number of those goals, each policy goal itself would require specific design features for a digital euro. It cannot (optimally) serve all goals with one set of design features. Some goals, such as the international role of the euro and improved cross-border/FX payments could be best served by the introduction of a wholesale digital euro, rather than a retail one.

As visible throughout the EBF response, the retail digital euro project entails both potential and significant risks for the European banking sector and the economy as a whole. A

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meaningful and transparent exchange with all relevant stakeholders can ensure, not only the appropriate uptake of this initiative, but also its longevity and success. With that objective in mind, the European Banking Federation will continue to follow the related developments with keen interest and seek to constructively contribute to shaping them.

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EBF response to European Commission Targeted Consultation on a Digital Euro

General remarks

The European Banking Federation (EBF) is following with keen interest the European Central Bank (ECB) work on a digital euro. The industry shares the objectives of the ECB to support the digitalisation of the European economy. This is a key topic for the European banking industry as the digital euro seeks to respond to the unprecedented speed of transformation in the area of digitalisation of the economy and payments, and has the potential to fundamentally change the current banking system. We therefore wish to constructively contribute to the discussion, so that the ECB, the European Commission and European banks work closely together in finding the best possible solutions to current and future challenges.

At the same time, a digital euro could pose **significant challenges**, including for financial stability, crowding out private solutions, finding a sustainable business model for intermediaries and responding to user needs. All these challenges should be duly assessed and mitigated. A central bank digital euro should first and foremost be a viable and optimal solution to a clearly defined un-serviced need in the market, for which no other more efficient solution exists. In addition, it should benefit private individuals and corporates and the economy as a whole, while avoiding destabilising the financial system. Considering also the key role that the digital euro should play in the area of payments, it is fundamental that this instrument offers **innovative features** that stimulate demand for it, thus preventing it from being outpaced by other solutions (private stablecoin initiatives and other foreign central banks digital currencies) or creating undue competition with existing/future private electronic payment solutions.

Therefore, before the ECB decides to issue a digital euro, it should be very clear what a digital euro can contribute that is not already covered or can be covered by private payment and deposit solutions.

Against this background, the EBF welcomes the opportunity to contribute to this targeted consultation on a digital euro. It should be noted that the considerations included in this response reflect what is known to date about this topic and therefore the assessment we provide below should be considered as indicative of the banking industry reflection at this point in time. We also believe that given the absence of details on how a digital euro might look like and which features it might have, it is extremely difficult to respond to some of the questions asked in the consultation paper.

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1. USER'S NEEDS AND EXPECTATIONS:

1. How important do you think the possible following aspects of the digital euro would be for people?

Please rate each aspect from 1 to 5, 1 standing for 'not important' and 5 for 'very important'.

	1	2	3	4	5	Don't know/not applicable
Availability of flexible privacy settings that can be adjusted to suit the payment occasion	X					
Wide availability and user-friendly onboarding process					X	
Always an option for the payer to pay anywhere / to anybody in the euro area with digital euro					X	
Easy to use payment instrument (e.g. contactless, biometric authentication)					X	
Account-based payment instrument¹			X			
Bearer-based payment instrument			X			
Real time settlement / Instant reception of funds					X	
Cost-free for payers						X
Payment asset is credit risk-free (central bank liability)	X					
Offline payments (face to face without connectivity)				X		

¹ The digital euro may function as an account based system (verification of transactions by an intermediary), as a bearer instrument (or token, with verification by parties of a transaction), or a combination of the two. For further explanation, see the ECB report on digital euro. It must be noted that DLT-based solutions are not exclusive of a specific design option, and can be carried out using an both account-based and bearer based instrument

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Ability to program conditional payments					X	
Other benefits (please specify)					X	

Please specify to what other benefit(s) you refer in your answer to question 1:

Additionally, a digital euro should have the following fundamental attributes:

- A 1:1 transferability/convertibility into existing forms of money (cash/commercial bank money) and vice versa at any point in time as a basic requirement for the realization of a digital ecosystem and to prevent volatility.
- Each transaction needs to be final, completed in real-time and free from credit or liquidity risks for users and intermediaries.

To the extent you deem it necessary, please explain the reasoning of your answers to question 1:

For the purposes of assessing users' needs in terms of a digital euro usage, it should be highlighted, as pointed out also in the Kantar report recently published by the ECB, that a citizen is not aware of the difference between central bank money and commercial bank money, and does not appreciate the different level of risk inherent in the two forms of money (especially when referring to counterparty risk), because this difference is close to zero when the latter is covered by deposit guarantee schemes. If a digital euro is issued, it is of utmost importance to avoid any perception that commercial bank money is 'risky', as this is not the case. This would completely undermine all the efforts that have been made in building the Banking Union and could lead to adverse outcomes.

This lack of awareness is also noticeable when citizens make payments, as their decisions are based on other factors, i.e., on convenience, ease of use and payment habits. This is one of the reasons why it is difficult to anticipate users' needs and expectations on a digital euro.

The digital euro could be envisaged to fulfil several objectives pursued by the ECB. It is important to highlight that not all the possible objectives could be simultaneously satisfied, and for this reason it is necessary to define and have a shared understanding of what kind of digital euro we are talking about.

In general, it is important that a digital euro falls under the same legislation as other digital payment means, such as PSD2 and AML. Same regulation must apply for all digital payment methods.

As for the features listed above, most of them are rather standard features and are valuable for citizens, and the existing set of payment instruments already caters for most. In general, it is obvious that a consumer would at a minimum expect the same level of convenience, speed, and security from a digital euro as with the currently available digital payment means. It should be noted that some of these features will have to be balanced against other needs, e.g., no per transaction fees for payers is certainly desirable for citizens. However, an appropriate compensation model for intermediaries needs to be defined, considering the costs of the services to be provided. Some features would become more relevant depending on the scenario in which the digital euro is issued, e.g., a credit risk-free payment asset in times of crisis; or availability of offline payments, if cash disappears.

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As regards the availability of flexible privacy settings that can be adjusted to suit the payment occasion, we deem that the level of importance may vary by geography as perception of data protection value and risks differs in the different countries. As for preserving privacy and data protection in payments, we deem that the same level of current privacy and data protection in electronic payments should be ensured and would be sufficient.

In general, we believe that a digital euro should enhance and support innovation and therefore should not be limited and targeted to the traditional use cases (P2P, PoS and online), as this would bear the risk of the digital euro being 'outdated' from the start and competing directly with market based means of payments. The digital euro should be future-proof and it should be explored how it could contribute to meeting the few unmet needs in the market today – such as offline person-to-person digital payments, M2M, IoT, micro payments, as well as making some payment processes easier (e.g. vouchers, conditional/finalised/split payments, etc.). To do this we are convinced that a digital euro must be based on the newest technological frontier. The ability to program conditional smart payments will allow the private sector to offer new value-added services to customers. Offline capabilities (with an online reconciliation within defined limits) should be included.

2. How important do you think the following aspects of the digital euro would be for merchants?

Please rate each aspect from 1 to 5, 1 standing for 'not important' and 5 for 'very important'.

	1	2	3	4	5	Don't know/not applicable
Low acquiring/merchant fees						X
Better acquiring services						X
Standards for EU wide acceptance infrastructure (e.g. POS), allowing for pan-European payments					X	
Account-based payment instrument			X			
Bearer-based payment instrument			X			
Real time settlement / Instant reception of funds					X	
Offline payments (face to face without connectivity)			X			
Other benefits (please specify)						X

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To the extent you deem it necessary, please explain the reasoning of your answers to question 2, providing quantitative evidence or estimates:

For merchants, crucial factors for the acceptance of a digital means of payments include a high degree of adoption by their clients (i.e., consumers) and in the economic soundness of the whole project (investments and running costs). Technical aspects are rather subordinate to these factors. A digital euro would bring added value to consumers and merchants only if it allows the development of innovative use cases and payment solutions. Wide availability and user-friendly onboarding process are fundamental as well. One way of complementing the current digital payments offer would be to include a limited offline possibility in a digital euro.

Acquiring/merchant fees in place currently are low and have already dropped considerably. Merchants weigh fees on the basis of the functionalities and value-added services they offer and the conversion rates they get. We are concerned about the comparison between a digital euro and existing acquiring services when asked about providing "better acquiring services". It is not clear from the consultation what inefficiency in acquiring services a digital euro is intended to solve for merchants.

3. In view of the most important value-added features you consider a digital euro may bring to people (see question 1), in which payment situations do you think the digital euro would bring that added value for people?

Please rate each scenario from 1 to 5, 1 standing for 'no added value' and 5 for 'very significant added value'.

	1	2	3	4	5	Don't know/not applicable
Paying with / transferring digital euros to a (natural) person face-to-face					X	
Paying with/transferring digital euros to a (natural) person remotely			X			
Paying for goods or services at a point of sale (face-to-face)	X					
Paying for goods or services remotely (ecommerce)	X					
Machine to machine Payments (Industry 4.0, IoT)²				X		

² Machine to Machine payments refer to smart contract based transfers of digital assets between machines such as autonomous cars, manufacturing machines, electricity charging stations and the like. Such transfers of digital assets are conditional upon meeting certain requirements which are coded into the smart contract. For smart contracts see <https://www.eublockchainforum.eu/video/educational/smart-contracts-simply-explained>).

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Paying in situations without connectivity – offline face to face payments				X		
Other situations (please specify)						

To the extent you deem it necessary, please explain the reasoning of your answers to question 3, providing quantitative evidence or estimates:

European consumers and businesses already have access to a variety of payment methods and instruments to cover their different payment needs. A digital euro should complement the current payments offering and not compete with it, based on the "no crowding out" principle. For a digital euro to achieve this, it should be functionally different from the existing payment solutions and be equipped with a sustainable remuneration model for all parties involved and especially for the regulated PSPs that will distribute it. For a digital euro to be used by consumers and businesses it must provide value-added, be a new payment solution whose offer is superior or different to the existing ones. In any case, it is important to preserve the stability of the banking sector and avoid crowding out private electronic payments solutions and therefore jeopardising intermediaries' balance sheet.

Given the above, a digital euro should be targeted to use cases/payment needs that are currently not covered by the market. In this respect, we see the main opportunities for a digital euro to bring added value in:

- **Payments with offline functionality**, where a digital euro could provide the advantages of digital payments in situations where there is no connectivity. This should be combined with an online reconciliation periodically. Having said this, offline capabilities need further investigation. Any offline use of a digital euro needs to deal with the PSD2 provisions on strong customer authentication and digital linking to protect the funds holder from unauthorised payments and to provide AML/CFT controls.
- **Innovative payments**, which could include programmable payments. It is fundamentally important that a digital euro enables private intermediaries to develop new value-added services. For all these use cases, we consider that the ECB should only provide a digital euro as a "raw material" in a way that allows private intermediaries to develop services, as the private sector is much better situated in developing such solutions. A retail digital euro should leave ample room for intermediaries to develop business models for the development of these use cases.
- **Programmability features** should not be understood as *programmable money* (e.g. indefinitely limiting the purposes for which money can be used) but rather as *programmable transactions* based on smart contracts. In order for intermediaries to be able to develop innovative services based on programmability, the ECB should enable programmability also in the design of a digital euro. As such, programmability in digital euro could be based on a two-tier model to be adopted for the distribution: a first tier of programmability linked to policy decisions and therefore governed by the Eurosystem; a second tier enabling the provision of innovative services ensured by regulated PSPs. Enabling programmability at the "core" level could imply that all the changes made by the ECB to a digital euro are immediately transmitted directly to the users without intermediaries' intervention enabling an automatic policy decision enforcing (e.g., caps). If updates were needed for a digital euro, a decision by the ECB as issuer would directly be implemented on all digital euro issued. Examples could

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include changes on holdings or spending limits. It would be possible to encode real-time controls of regulatory requirements (e.g., AML, respect of thresholds) and policy choices performed by a digital euro infrastructure without delays in execution and human-intensive activities or third-party controls. Moving to the second tier, it would be possible for regulated PSPs to offer payment services shaped according to market needs, for both retail customers and corporates.

- Digital euro value-added features could also be seen in **M2M** (Machine to Machine) payments. M2M payments will be an important driver of payment innovation in the digital economy but could as well be based on private sector innovations and/or public-private cooperative initiatives, leveraging on the possibility to build value-added services on digital euro. However, it will be important to reconcile M2M payments with robust caps for digital euro holdings and limiting the impact on intermediaries' balance sheets.
- Moreover, looking at the different payment segments listed above, it is important to highlight that the P2P digital euro exchange is in some way inherent to the concept of money itself. It is not possible for a digital euro as a retail CBDC not to allow money exchanges among peers as this functionality is embedded in the idea of money and therefore should be allowed by definition, otherwise its existence as a currency would be questionable.
- In general, it is important to highlight that a central bank-issued retail digital euro will not sufficiently tackle all the challenges. We believe that Europe needs a comprehensive digital euro money ecosystem, consisting of retail and wholesale CBDC, as well as private sector solutions. At the same time, none of the use cases discussed above implies a need per se or a strict preference of a central bank-issued retail digital euro, as these use cases could also be fulfilled with commercial bank-issued digital currencies.

4. In view of the most important value-added features you consider a digital euro may bring to businesses/merchants (see question 2), in which payment situations do you think the digital euro would bring added value for businesses/merchants?

Please rate each scenario from 1 to 5, 1 standing for 'no added value' and 5 for 'very significant added value'.

	1	2	3	4	5	Don't know/not applicable
Getting paid in physical shops, marketplaces, etc.			X			
Getting paid in e-commerce	X					

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Paying invoices		X				
Trade finance	X					
Machine to Machine payments					X	
Paying in situations without connectivity – offline face to face payments				X		
Others (please specify)						

To the extent you deem it necessary, please explain the reasoning of your answers to question 4, providing quantitative evidence or estimates:

Please refer to our response on question 3 that discusses in general the use cases.

EU businesses and merchants already have access to robust, safe and sound payment systems as well as to efficient and secure digital means of payment. A digital euro could complement existing options for citizens as customers of businesses and merchants by adding to the strengths of cash and digital processes. A digital euro could add value for merchants, if it focuses on use cases that are not currently covered by existing payment solutions, allowing the development of innovative use cases and payment solutions based on programmability and interoperability. It is important to examine how the opportunities brought in by Distributed Ledger Technology (DLT) could be leveraged to provide businesses with new value-added services. Programmability features will probably be key in the future payments landscape and part of the value added by market actors. However, these use cases are in an early stage, and a variety of them can be envisaged, including possible changes of underlying economic interactions, such as Machine to Machine transactions and a growing number of Internet-of-Things devices, as well as the streamlining and simplification of processes that could also be achieved in a much more complicated manner without native programmability of money. Therefore, it is important to allow for the development of a digital euro that can accommodate native programmability of digital euro payments. Wide availability and a user-friendly onboarding process are fundamental too.

In order to make a digital euro attractive for merchants, an appropriate business model should be defined taking into account the innovative functionalities that a digital euro would offer and the related fees (acquiring services that properly fit merchants’ needs).

Regarding the possibility of using a digital euro in trade finance, assuming it will be retail-focused and with low caps, it would not be useful for large-value payments in trade finance.

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5. How important would the following policy outcomes related to the possible issuance of a digital euro be in your opinion?

Please rate each objective from 1 to 5, 1 standing for 'not important at all' and 5 for 'very important'.

	1	2	3	4	5	Don't know/not applicable
Providing access to public money in digital form for everyone			X			
Monetary sovereignty				X		
A stronger open strategic autonomy for the EU		X				
A broader access to digital payments for people with less digital skills, disabilities, or other physical vulnerabilities		X				
A broader access to digital payments for unbanked people (i.e., without bank account)		X				
Enabling for pan-European payments		X				
Preserving privacy and data protection in payments	X					
Development of the EU's digital economy innovation			X			
Facilitating the provision of Europe-wide private payment solutions	X					
Providing a European public alternative to the emerging new payment solutions such as crypto assets, stablecoins and foreign CBDCs						X
Decrease payment costs	X					
Other (please specify)						

To the extent you deem it necessary, please explain the reasoning of your answers to question 5, providing quantitative evidence or estimates:

While a digital euro could serve a number of the mentioned policy goals, each policy goal itself would require specific design features for a digital euro. It cannot (optimally) serve all goals with one set of design features. Some policy goals like the international role of the euro and improved cross-border/FX payments could be best served by the introduction of a wholesale digital euro, rather than a retail one. In addition, initiatives that are being developed by the BIS at the international level should be taken into account.

It would also be important for the industry to have clarity on the different policy initiatives and priorities set by the authorities, for instance it is not clear how the initiatives on instant payments and digital euro would go together and not overlap.

The financial sector could also offer through private initiatives some of the potential advantages of CBDCs. Private stablecoins and tokenised bank deposits issued by regulated entities could enable for example the advantages of programmable money without jeopardising financial intermediation and credit provision. In the wholesale space, reserve-backed wholesale digital payments systems could be an alternative to wholesale CBDCs.

As to the specific policy goals:

- **Providing access to public money:** the need to provide additional access to public money via a digital euro is foremost a political decision. If the use of cash declines significantly as a payment instrument, it may be necessary to provide an alternative (CBDC) to citizens to preserve the monetary anchor. However, it will be key to determine how much the use of cash has to be reduced before this monetary anchor is endangered and action is needed. While the use of cash as payment instrument is decreasing in the eurozone, the total volume of cash in circulation remains stable or is even growing. This policy objective should not contradict with the need to avoid negative impacts for the financial system. Also, a digital euro should not become a store of value.
- **Strategic autonomy:** To maintain European monetary sovereignty and reinforce the EU's strategic autonomy, a digital euro must become a real alternative to global stablecoins and to other CBDCs. Considering the key role that a digital euro could play in the area of payments, it is fundamental that this instrument offers innovative features that stimulate demand for it, thus preventing it from being cast aside by other solutions (foreign central banks digital currencies or private stablecoin initiatives). Only in this way a digital euro could be adopted by EU citizens and its uptake would help the ECB's objective in maintaining the monetary sovereignty. The ECB should be ambitious in its design of a digital euro and provide competitive features (programmable/offline), ensuring that it is competitive, future-proof, and drives payment innovation. If a digital euro has to contribute to monetary sovereignty and strategic autonomy, the distribution model must ensure that the role of intermediary is assigned to supervised European players. At the same time, a wholesale digital euro should be explored to further strengthen the EU's strategic autonomy and monetary sovereignty.
- **Enabling pan-European payments:** A digital euro should be functionally different from current electronic payment instruments and, at the same time, easy to integrate into the existing banking system. Such an approach would not crowd out private sector initiatives or existing private sector offer. A digital euro needs to be seen as a powerful raw material for payments, that can be used by supervised intermediaries to build up new, innovative services. A retail digital euro could reduce dependency of existing

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payment providers and provide a pan-European payment scheme. However, to create a pan-European payments infrastructure would require the development of a payment layer, that is separate from the currency layer. The mere issuance of a digital euro (being a currency layer) is not sufficient to develop a single European payment layer: a “scheme” and infrastructures are also needed. It is noted though that, if a digital euro is designed in a way to replicate the existing payments offer, there is a major risk that the vast investments which would have to be undertaken by payment providers would reduce their capacity to invest in truly innovative and value-added services.

- **Financial inclusion:** We do not see an issue of financial inclusion pertaining to the access to payment services and payment accounts in the EU, and in particular an issue that would be remedied by a digital euro. In our view, an important obstacle for inclusion is the lack of digital skills. If a digital euro aims to create more financial inclusion and simplify access to digital payments, specific design features should be explicitly considered, taking into account this obstacle. Given the high level of account penetration in the EU, a digital euro will hardly increase payment account inclusion.
- **Stablecoins:** In order to provide an alternative to foreign stablecoins and (retail) CBDCs, a digital euro should offer competitive features. It is important to explore the possibility of operating a digital euro on existing DLT networks, where money with legal tender status could facilitate asset transmission. Also, in order to facilitate private sector innovation, we welcome the EU Regulation on Markets in crypto-assets (MiCAR) which will allow for well-regulated euro-denominated private stablecoins. However, currently a large part of the use of stablecoins and cryptocurrency is related to aspects that will not (and should not) be linked to a central bank issued digital euro: (pseudo)anonymity and speculation. The only use case that appears to have a reasonable overlap between crypto/stablecoins and a CBDC is international transfers. That use case is however not yet considered.
- **Innovation:** If a digital euro is not properly designed, it will be neither necessary nor sufficient to promote innovation in payments. A digital euro will bring added value to consumers and merchants, only if it allows the development of innovative use cases and payment solutions, for example based on programmability and interoperability.
- **Decrease of costs:** It is important not to set the expectation that a digital euro will reduce payment costs. An appropriate compensation model for intermediaries is needed to keep incentives to provide services and innovate. In addition, as a retail digital euro would co-exist with private payment instruments that are already in place, it would inflict additional cost for both merchants and consumers, either directly or indirectly. The argument of decreasing the cost of payments should therefore not be used as an argument in favour of a digital euro.
- **Accessibility:** it is important to highlight that digital payment solutions need to be made accessible to people with disabilities. This attention should be accompanied by appropriate information dissemination initiatives at European and national level to raise awareness of the instrument's objectives, potential and ways of using it.
- **Preserving privacy and data protection in payments:** data privacy and protection are already ensured by current digital payment means; therefore, a digital euro is not needed for the purpose of ensuring these.

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Instead of introducing a retail digital euro only, a whole ecosystem of digital money is important in order to reach many of the above-mentioned policy objectives, because the central bank’s proposal alone will not secure Europe’s digital and monetary sovereignty. The banking industry with their specific solutions needs to be involved as well. For instance, commercial bank money tokens are important for corporate customers. A functioning bank money token is the basis for Industry 4.0 as it will help to create highly automated processes and more innovative, seamless cooperation in the European industry, and is therefore a key factor to Europe’s strategic autonomy. Therefore, in addition to a central bank-issued digital euro, more advanced payment solutions developed by the banking industry will also play a major role in future. Tokenised commercial bank money should be enabled, and existing payment systems should allow for DLT-based business processes in order to create payment solutions to complement a retail digital euro. A holistic CBDC project of the ECB should also explore the possible introduction of wholesale CBDC in order to fully exploit the advantages of DLT in capital markets. In the wholesale space, reserve-backed wholesale digital payments systems could be an alternative to wholesale CBDCs.

6. What aspects or features of the digital euro would be important to support financial inclusion?

Please rate each aspect from 1 to 5, 1 standing for 'not important' and 5 for 'very important'.

	1	2	3	4	5	Don't know/not applicable
Easy process of onboarding					X	
No need for bank account			X			
Easy payment process (initiating and authenticating a payment transaction)				X		
Accessible device for payments (e.g., chipcards)				X		
Enabling of offline, peer-to-peer transactions				X		
Other (please specify)						

To the extent you deem it necessary, please explain the reasoning of your answers to question 6, providing quantitative evidence or estimates:

The EU, and even more specifically the euro area, does not have a problem of financial exclusion that in itself would call for the issuance of a digital euro. Legal provisions are well in place (e.g., Payment Accounts Directive) to ensure that citizens (including e.g., asylum seekers) have access to a basic payment account and the related banking services. These provisions need to be balanced continuously with other legal provisions, most importantly related to Anti Money Laundering, Countering the Financing of Terrorism and Know Your Customer obligations. These legal obligations should also apply in case banks

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are intermediating a digital euro, therefore in terms of financial inclusion, little impact could be expected.

Furthermore, the issue of financial inclusion – especially in view of digital finance - is often linked to the question of access to digital devices and infrastructure such as smartphones and reliable connectivity, which will be necessary to have access to a digital euro. In this sense, a digital euro could end up hindering financial inclusion efforts, if no targeted measures to improve digital inclusion are implemented in parallel. Therefore, due attention should be paid to inclusion and accessibility in order to ensure a wide adoption from every segment of citizens, not only for digital native customers.

Complexity in onboarding is often proportional to the number of controls that must be performed: this is why we consider necessary that onboarding activities would be proportionate to the effective benefits associated with each of the steps of the process. In other words, if a specific control does not affect the conclusion of the onboarding process, it should be simply skipped, improving the customer experience. On the other hand, if the essential controls to be executed during onboarding are equal to the ones requested for bank KYC, this will result in an “automatic” onboarding for bank customers, following their request. In our opinion, the basic onboarding process can be summarised as checks certifying the identity of the applicant and the absence of other digital euro payment instrument in the possession of the prospective user.

2. THE DIGITAL EURO’S ROLE FOR THE EU’S PAYMENT SYSTEMS AND THE DIGITAL ECONOMY

2.1. The digital euro’s role in supporting pan-European payments and strengthening Europe’s open strategic autonomy

7. What aspects or features of the digital euro would be important to support pan European payments and to strengthen Europe’s open strategic autonomy?

Please rate each aspect from 1 to 5, 1 standing for 'not important' and 5 for 'very important'.

	1	2	3	4	5	Don't know/not applicable
A new form of pan-European instant digital payment complementing the existing offer for point of sale (POS, face to face payments in e.g. shops) and e-commerce <u>without</u> a (quasi) universal acceptance in physical and online shops				X		

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A new form of pan-European instant digital payment complementing the existing offer for point of sale (POS, face to face payments in e.g. shops) and e-commerce with a (quasi) universal acceptance in physical and online shops				X		
A public digital means of payments that can be offered through all available payment solutions			X			
A digital payment means allowing for online third-party validation of transactions					X	
A digital payment means allowing for offline peer-to-peer transactions					X	
A digital means of payment offering programmable payment features					X	
Other (please specify)						

For those aspects you deem most important, can you explain why?

Pan-European payments should be supported by an environment that:

- Allows and supports viable and adequate business models to all players involved;
- Fosters innovation such as payments programmability and responds to new market needs;
- Is flexible enough to cover future use cases;
- Considers and values existing and efficient solutions, and leaves room for private innovation and investments.

If a digital euro aspires to play a key role in the area of payments, it is fundamental that this instrument offers innovative features that stimulate demand for it.

As far as the EU strategic autonomy is concerned, we need to take into account that facilitating the usage of a digital euro in the e-commerce payment segment could entail unintended consequences. Today, a large part of the European e-commerce is captured by non-EU tech players, and a digital euro – without the right design – would reinforce the commercial position of BigTechs rather than strengthen EU open strategic autonomy (in the case where a digital euro would be enabled for e-commerce payments, with a merchant fee that (if any) would be lower than current ones, this would result in a discount for Bigtechs ‘paid’ by European PSPs).

A digital euro should differentiate substantially from current P2P and POS private payment solutions to gain traction as a viable alternative, whilst not crowding out private payment instruments. Universal acceptance (as a currency) in itself will not drive consumer

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adoption as long as private solutions fulfil end-user needs and/or offer superior features (i.e. a superior payment method). Any measures to introduce mandatory acceptance should be carefully designed in order not to affect the level playing field between different means of payment, specially not to “crowd-out” currently existing solutions that are very efficient. Adoption should be market-driven, based on the benefits and ease of use of payments in digital euro.

Offline payments could serve as an alternative to payments that are currently done in cash, as well as a fall-back to online payment methods. It should be noted that offline capabilities could be developed also on private payments solutions, supporting increased resilience in the European payments landscape.

Programmability features will be key in the future payments landscape and will be part of the value-added features by market actors. For Europe’s open strategic autonomy, a digital means of payment offering programmable payment features is critical. Although at this stage it is not easy to identify which use cases would require programmability, we must be prepared for future use cases to emerge (e.g. those related to cross-border payments in search of efficiency gains). To compete with foreign CBDCs and crypto, we need a digital euro at the technological frontier. The ECB should not issue a means of payment that is not ready for the economy of the future.

The ease of uptake for the merchant and ease of use for the consumer must be central in any digital euro considerations, to make a compelling offer to the market, which already provides many well-working, low-cost alternatives for digital payments to consumers. Innovative added services offered by the industry, e.g. as part of their proprietary wallet solutions, should be a key cornerstone of the integrative ECB's digital euro project from early on.

8. How would the following aspects of a digital euro support a diversified and competitive retail payments market, where a variety of payment service providers offer a broad range of payment solutions?

	positively affect	negatively affect	does not affect	Don't know/not applicable
Allowing for the distribution of the digital euro to take place through regulated financial intermediaries (Payment Service Providers)	X			
Offering another form of central bank money in the context of a declining use of cash for payments	X			

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Existence of holding caps or interest and fees on large holdings to limit the store of value in the form of digital euros (for financial stability reasons)	X			
Using the digital euro acceptance network to foster pan-European private sector initiatives	X			
Other (please specify)				

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

Please note that our responses above only refer to the desirability of the specific features listed, in the event that a digital euro is issued.

- Offering another form of central bank money in the context of declining use of cash for payments in the long run, could positively affect the retail market but at the same time could also crowd out private initiatives.
- Distribution through regulated financial intermediaries would be a precondition to mitigate financial crime risks, as well as help preserve financial stability and the role of banks in financing the economy, provided a sustainable business model could be developed.
- Limits on the holding of a digital euro are necessary to avoid large deposit shifts from banks and thus maintain financial stability. However, restrictions should be defined in legislation and not in the central bank’s policy toolbox.
- Acceptance network to foster pan-European private sector initiatives: being able to use the digital euro acceptance network for pan-European private sector initiatives could be a catalyst for the general adoption of electronic payment means by European merchants. This would also allow payment users to choose the payment solution that best suits their needs.

2.2. The digital euro’s role for the digital economy

9. How important the following possibilities for the use of a digital euro would be to support the development of the EU’s digital economy?

Please rate each aspect from 1 to 5, 1 standing for ‘not capable at all’ and 5 for ‘very capable’.

	1	2	3	4	5	Don’t know/not applicable
Possibility for programmable payment functionalities provided through the digital euro solution					X	

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Possibility for integration with other payments solutions (independent of what technology they use)				X		
Integration with platforms relying on distributed ledger technology (DLT)/blockchain³ for smart contracts applications (beyond payments)					X	
Possibility for micro and stream⁴ payments				X		
Machine to Machine payments⁵ (Industry 4.0, internet of things (IoT))				X		
A digital euro that connects with the European Digital Identity Wallet ecosystem⁶					X	
Other (please specify)						

To the extent you deem it necessary, please explain your reasoning including whether the elements of a digital economy outlined above would be better achieved if the digital euro is a bearer-based instrument or an account-based system, and provide quantitative evidence or estimates.

In our opinion, one of the main goals of a digital euro should be to support the digitalisation of the European economy and the strategic independence of the European Union. To achieve it, a digital euro should bring added value while enabling the development of new use cases and innovative payment solutions. For these reasons, the possibility for programmable payment functionalities provided through a digital euro solution, possibility for integration with other payment solutions (independent of what technology they use) and Machine to Machine payments (Industry 4.0, internet of things (IoT)) are of paramount importance.

However, the ECB should not develop all the above-stated possibilities of use itself, but rather provide the basic core infrastructure to allow for intermediaries' own design choices

³ A Distributed Ledger is a database that is shared and synchronized across multiple sites, institutions, or geographies, accessible by multiple server operators. A distributed ledger stands in contrast to a centralized ledger, which is the type of ledger that most companies use today. Blockchains are a type of distributed ledger (see at <https://www.eublockchainforum.eu/video/educational/how-doesblockchain-work-simply-explained>). ¹⁵ Stream payments relate to consecutive execution of micro payments to pay for on-demand services, e.g. video, music, electricity recharging.

⁴ Stream payments relate to consecutive execution of micro payments to pay for on-demand services, e.g. video, music, electricity recharging.

⁵ Machine to Machine payments refer to smart contract based transfers of digital assets between machines such as autonomous cars, manufacturing machines, electricity charging stations and the like. Such transfers of digital assets are conditional upon meeting certain requirements which are coded into the smart contract. For smart contracts see <https://www.eublockchainforum.eu/video/educational/smart-contracts-simply-explained>).

⁶ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_2663

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in developing wallets, solutions, and value-added services around a digital euro, thereby promoting a market-oriented, resilient and diverse ecosystem. Intermediaries should be enabled by the ECB to implement innovative functionality into their proprietary wallet solutions, to foster the acceptance of a digital euro. The digital euro as a form of money should be the raw material on which the market-driven solutions could be built. In our opinion, only a digital euro with the above-mentioned features and based on interoperable solutions could compete with crypto-assets, also relying on its institutional nature and lack of credit risk. Therefore, it could become a relevant factor for the digitalisation of financial services in the EU and for the enhancement of the international role of euro, based on innovative and disruptive technologies such as DLTs, allowing the development of highly innovative use cases (in particular those based on programmable money and smart contracts) in order to bring real added value to end users.

Interoperability with other payment solutions would facilitate the deployment of a digital euro while contributing at the same time to the overall adoption of digital payments. A digital euro should be integrated into broader services enabling intermediaries to offer new value-added services.

A digital euro could benefit from the availability of a European Digital Identity. A digital euro would have to be interoperable and work not only with the European digital identity wallet, but in general with the ecosystem and with other digital identity solutions, including private ones. However, the use of the e-ID wallet for payment initiation should be carefully evaluated, as it would in this case compete with solutions that could be developed by the private sector. However, the identification function and the payment function should be clearly separated.

Lastly, a digital euro should be easily integrated into the existing banking system. It should also be widely accessible and easy to use for all citizens. Standardisation of technologies (e.g., APIs) and the use of open-banking solutions are key features for the development of efficient financial services based on a digital euro too.

10. What use cases in your sector would you see for a digital euro? Please briefly explain the use case(s) you see pertinent.

A digital euro should complement the current payments offering and not compete with it. For a digital euro to achieve this, it should be functionally different from the existing payment solutions and be equipped with a sustainable remuneration model for all parties involved and especially for the regulated PSPs that will distribute it.

A digital euro should enhance and support innovation and therefore should not be limited and targeted to the traditional use cases (P2P, PoS and online), as this would bear the risk of a digital euro being 'outdated' from the start. A digital euro should be future-proof and it should be explored how it could contribute to meeting the few unmet needs in the market today – such as offline person-to-person payments, M2M, IoT, micro payments, as well as making some payment processes easier (e.g., vouchers, conditional/ finalised/split payments, etc.) To achieve this, we are convinced that a digital euro must be based on the latest technological frontier.

For a digital euro to be used by consumers and businesses, it must provide value-added, and be a new payment solution whose offer is superior or different to the existing ones.

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In any case, it is crucial to preserve the stability of the banking system and avoid crowding out private electronic payments solutions, therefore jeopardising intermediaries' balance sheet.

Considering that one of the main policy goals of the introduction of a digital euro would be to preserve the role of public money in a digital economy, and that is mainly directed to emerging alternatives such as crypto-assets and foreign CBDCs, further emphasis should be attributed to use cases where these new payment solutions could provide added value, and focus less on those use cases already covered by solutions provided and heavily invested in by regulated intermediaries, such as instant payments.

Furthermore, by using innovative technologies for new services based on a digital euro, PSPs could:

- develop innovative use cases for payments in digital euro: several uses cases may be potentially implemented leveraging on the concept of split transaction (applied to revenue sharing or multiple payments that require atomic transactions) or to implement rules and limits for expenditure of funds (such as in public payments like targeted bonuses). Other use cases may be related to M2M payments or could be identified in the banking/insurance sector or insurance claims settlements (programming features). In other sectors a digital euro could be used for loyalty programs (e.g., pay-per-use).
- provide ad hoc services based on programmability for businesses (e.g., smart contracts, on-chain transactions). However, for use cases in the context of industry applications (B2X) these could be also addressed by commercial bank money tokens, directly issued within business networks. It needs to be further explored how a digital euro and such commercial solutions would work together.
- integrate digital euro services for merchants together with cash collection and digital payments at POS (e.g., automated payments).
- allow for temporary offline digital payments.

Also, a wholesale digital euro could unlock efficiencies. A wholesale CBDC built on state-of-the-art technology could feature 24/7 payments across borders with immediate settlement finality (meaning the recipient can be sure that the funds have been received, regardless of e.g., revocation attempts, payer insolvency or other reasons for non-delivery).

3. MAKING THE DIGITAL EURO AVAILABLE FOR RETAIL USE WHILE CONTINUING TO SAFEGUARD THE LEGAL TENDER STATUS OF EURO CASH

3.1. The digital euro's role for the digital economy

Possible introduction of legal tender for the digital euro

11. To achieve the digital euro objectives, how important do you consider it is that a payer always has the option to pay with a digital euro as a form of currency having legal tender status?

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Please rate your answer from 1 to 5, 1 standing for 'not important' and 5 for 'very important'.

3.

Please explain why. To the extent you deem it necessary, please consider how this could be better achieved.

If the main objective is to create an alternative payment method its success depends mainly on the added value it would create, rather its legal tender status. The purpose with "legal tender" definition should be to clarify what is defined as central bank money. But it should not be understood as mandatory acceptance in all cases, and both payees and payers should always retain contractual freedom to accept or use a digital euro. A mandatory acceptance could lead to a competition issue with private alternatives. Not having legal tender status has not prevented digital means of payment from becoming very successful. Bearing this in mind, we consider that introducing a legal tender status for a digital euro would create an unlevel playing field between the digital euro and other digital payment means, unless that digital euro would only target new use cases thus not competing with existing payment solutions, as we advocate. While the legal tender status might perhaps be deemed as crucial to achieve the digital euro objectives, it is our strong belief that in general, the acceptance of a digital euro will be driven mostly by the acceptance of the citizens / customers. In any case, the freedom of contract that exists today for citizens and businesses should remain unaffected. We believe that the legal tender status of a digital euro should be defined through a clear provision that sets homogeneous rules and exceptions applicable at the EU level. Defining the legal tender status for a digital euro does not imply changing the already existing legal tender status of cash. We recall that a digital euro is under consideration as simply another form of the same physical currency.

Furthermore, it appears that the underlying assumption of this section is that introducing the status of legal tender for a digital euro is almost tantamount to the absence of limits in its holding and use. This is definitely not the case today with legal tender as currently in some Member States people cannot pay in cash over a certain threshold. This means that legal tender status does not require per se the absence of limits and therefore the assumption should be challenged: limits on cash do not hinder/impinge on the concept of legal tender status that implies a "general obligation in principle of acceptance" (e.g., in some Member States people cannot pay in cash over a certain threshold).

In addition, it is necessary to clarify whether there will be any controls which could cause the decision to refuse the related account opening or the bearer instrument release, and whether this could affect the legal tender status of the digital currency (again, this is not the case with legal tender today). For instance, if a digital euro user should be identified, we assume that in lack, for example, of a valid ID (paper-based or digital), an intermediary must not engage with that user.

12. Do you see advantages in regulating legal tender in detail at Union level, including any possible acceptance exceptions, by including a definition of legal tender status for the digital euro in EU legislation?

- **Yes**
- No
- Don't know/no opinion.

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To the extent you deem it necessary, please explain your reasoning and the advantages/disadvantages.

We see some advantages in regulating legal tender at Union level as it implies that the same rules (and exceptions) will be applied within and across the EU. In this way, legal certainty and a level playing field could be guaranteed.

13. Should the legal tender status of the digital euro take inspiration from the current legal tender status of banknotes and coins, while addressing the specificities of a digital form of payment?

- **Yes**
- No
- Don't know/no opinion.

To the extent you deem it necessary, please explain your reasoning for and against.

The digital euro legal tender status should take inspiration from the current legal tender status of banknotes and coins. In addition, we deem necessary a clear definition of the legal tender status of a digital euro which would result in a homogeneous transposition of the acceptance rules at the European level. To make the digital euro a payment alternative on level with cash, the legal tender status should be oriented on the core functions of money: unit of account and medium of exchange, with the exception of store of value (because of the risk of disintermediation). It is important that clear and uniform rules and exceptions are applied at Union level in order to guarantee legal certainty and a level playing field.

However, given the different nature of a digital and a physical euro, the rules and possible exceptions could be different between the two forms of the currency, provided that these rules and exceptions remain homogeneous at the EU level. For example, considering the nature of a digital euro, it would be necessary to impose spending or amount holding limits (e.g., for AML/CFT purposes) which could potentially be different from those defined for the physical cash at EU level.

14. If the legal tender of the digital euro was defined in EU legislation, would there be a need for (justified and proportionate) exceptions to its acceptance?

- No
- Yes, for merchants not accepting digital means of payment
- Yes, for small merchants
- Yes, but exceptions should be further specified by Member States
- **Others, please specify**

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

Exceptions to mandatory acceptance should be defined in EU legislation and they should be functional to the objectives of a digital euro.

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Universal acceptance should be a gradual obligation, taking into account the efforts required by merchants and acquirers to adapt the acceptance infrastructure. Moreover, once merchants eventually accept digital euros, they should also be required to accept other digital payments, so that customers will be able to choose the payment method that best suits their needs.

As with the assessment of a legal tender status for a digital euro itself, the question around exceptions can only be clearly answered once the design of the legal tender status becomes clearer. However, it makes sense that in some cases, acceptance of digital payments cannot be expected from some payees (e.g., flea market, farm shop). Entry barriers nevertheless should be kept low in general, so that market demand will increase the digital euro acceptance by all merchants. In any case, the freedom of contract that exists today for citizens and businesses should remain unaffected.

15. Should there be a provision to require that the additional exceptions proposed by Member States are subject to approval by the European Commission after consulting the ECB?

- **Yes**
- No
- No opinion

Please explain.

The exceptions to the general obligation in principle of acceptance of a digital euro would require a harmonized approach across Member States in the euro area, otherwise this would increase costs and legal uncertainty for market participants.

16. Should there be a provision for administrative sanctions for digital euro nonacceptance?

- Yes
- **No**
- No opinion

Please explain.

The provision for administrative sanctions for digital euro non-acceptance seems to be an excessive measure at this stage, also considering that administrative sanctions are not part of the current legal tender status applied to banknotes and coins.

17. If the legal tender status of the digital euro was defined in EU legislation, should it include rules that ensure digital euro is always an option for the payer, so following categories of payees cannot unilaterally exclude digital euro acceptance within its general contractual terms and conditions?

	Yes	No	Don't know/not applicable
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Government			X
Utilities providers			X
Large companies			X
Merchants that accept private electronic means of payment			X
Others, please specify			

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

In terms of fostering wide adoption by the market, we see advantages in a digital euro being accepted by the entities listed in the table, however we also believe that payees should retain contractual freedom.

Estimation of costs

18. Technological and business developments might radically change the current way of payment acceptance (e.g. phones used as terminals). Irrespective of digital euro, how do you expect the cost of the acceptance infrastructure (not the transaction fees) to change with technological developments over the next 5 years?

- 1 significant decrease in cost
- 2 some decrease in cost
- 3 no change in cost
- 4 some increase in cost
- 5 significant increase in cost
- **Don't know/ no opinion**

Please explain your reasoning and provide quantitative evidence or estimates.

19. The digital euro might be granted legal tender status that merchants would need to adhere to. Which and what type of additional costs would merchants face when starting to accept payments in digital euro?

	With legal tender status	Without legal tender status

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Type of additional costs	<ul style="list-style-type: none"> • Mandatory upgrades/replacement of physical and online POSs. • One-off and recurring software costs. • Training of personnel. • Costs of accepting a digital euro, especially joining a validation/confirmation infrastructure. • Costs of equipment and communications. • Costs for a new payment system participation. • Costs for upgrading cash register systems. • Costs for upgrading exception handling processes (refund, return, error payments, fraud...). <p>The investment would have to be made by all merchants, which could create conditions (scale) for the development of solutions both for validation and for communications that, through massification, would become less costly.</p>	<p>Same but voluntary upgrades/replacement to physical and online POSs in line with normal investment cycle.</p> <p>Only merchants who see an advantage for themselves in accepting a digital euro will be willing to make this investment. The result could be fragmentation and the use of a digital euro for niche markets.</p>
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Please explain your reasoning and provide quantitative evidence or estimates.

We have no further elements than the above-mentioned qualitative points to make an assessment of cost impact on merchants caused by the legal tender of a digital euro.

20. For merchants to be equipped to accept the digital euro, new POS terminals, new software or new app-based POS solutions may be needed. Please provide an estimate of the incremental costs necessary to accept payments in digital euro:

	Merchants already accepting electronic payments	Merchants not yet accepting electronic payments
	In EUR per terminal	In EUR per terminal
One off costs related to (new) POS terminals for accepting payments in digital euro :		
One-off costs related to software:		
Annual cost for maintenance, licences etc.		

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Others please specify		
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Please explain your reasoning and provide quantitative evidence or estimates/ranges.

Based on the current understanding on the design of a digital euro and its characteristics and distribution model, it is not possible to provide for cost analysis and quantitative evaluations.

21. Would these costs differ depending on whether the digital euro would be account based or bearer based?

- Yes, account-based would be less costly
- Yes, bearer-based would be less costly
- No difference
- **Don't know/ no opinion**

Please explain your reasoning and provide quantitative evidence or estimates.

22. How important would the aspects listed below be for Merchants to counterbalance the one-off investment cost of new point of sale (POS) terminals or software that can handle digital euro payments?

Please rate each aspects from 1 to 5, 1 standing for 'not important' and 5 for 'very important'.

	1	2	3	4	5	Don't know/not applicable
Possible savings on the transaction costs of digital euro payments						X
With the same (new) POS terminals purchased for digital euro payments, the possibility for merchants to accept other payment solutions offered by supervised private intermediaries					X	
The possibility for merchant to accept digital euro payments from payers using a variety of devices e.g. smartphones, chipcards, wearables or other devices and contactless functionality (e.g. NFC antennas)		X				
Others (Please specify)						X

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To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

The economic costs of the implementation of an entirely new acceptance infrastructure might be prohibitive for all market actors involved, not least for merchants. It would be critical to avoid the purchase of new POS terminals, with all the related expenses. Instead, it should be ensured that the current terminals are updated and adapted to accept payments with digital euros too. The possibility to use POS terminals to accept other payment solutions offered by supervised private intermediaries would also be important to ensure a level playing field between digital payment means.

A digital euro would have to yield more significant benefits beyond the pure payments function in order to make a sound economic outcome more likely. There should be a sustainable business model where benefits for merchants should be factored in. It is also important not to create the expectation that a digital euro would automatically lead to reduced (transaction) costs as it has not been demonstrated: (i) what could lead to lower transaction costs in digital euro and (ii) by whom such hypothetical savings would be balanced.

Merchant fees

23. For merchants to be equipped to accept the digital euro, services of intermediaries may be needed. Taking into account the (possible) mandatory acceptance of the digital euro in case it has legal tender status, should any boundaries to the fees that may be applied to merchants be set?

- Yes
- **No**
- Don't know/ no opinion

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

The business model related to the introduction of a digital euro should be market-driven, transparent, and with competitive pricing for the related services. A cap for migration cost would lead to market imperfections. Member States could consider subsidies for the transition to digital euro acceptance by merchants.

The development and provision of customer-friendly, reliable and secure payment solutions requires significant investments. Market actors need a reasonable incentive in the form of possibilities to finance these investments. The required investment costs for retailers and banks will be high and cannot be met without government funding. Similarly, intermediaries that provide consumers with access to a digital euro must be given the option of receiving remuneration for commercial transactions within an acceptable range in order to ensure that both costs and benefits are fairly distributed. Furthermore, any remuneration from a digital euro should cover all parties' costs plus a margin. Eventually, market-based mechanisms will yield better results than a legislative price restriction which leads to adverse incentive structures and results to impediments for innovation.

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24. Please qualify the following statements with regard to how merchant fees could be designed

Please rate each aspect from 1 to 5, 1 standing for 'strongly disagree' and 5 for 'strongly agree'.

	1	2	3	4	5	Don't know/not applicable
Fees on digital euro payments should be based on real costs and a reasonable profit					X	
Fees on digital euro payments could be based on the volume or value of transactions, if and insofar the volume or value has an impact on the real costs of intermediation					X	
Multilateral interchange fees consistent with the Interchange Fee Regulation may be taken into account in the initial calibration of the fees on digital euro payments				X		
Fees calculated in another way (please specify)						X

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

All three approaches mentioned above would be reasonable and complementary. Merchants already have a cost to accept digital payments (i.e. instant payments, direct debits or card payments) and to manage cash.

25. Should there be a prohibition on surcharges on payments with digital euro?

- Yes
- No
- **Don't know/not applicable**

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

In the absence of details on the digital euro features and characteristics, as well as its distribution model, it is difficult to provide views on this topic. However, in order to make a digital euro attractive for merchants, an appropriate business model should be defined taking into account the innovation/functionalities that a digital euro would offer and the related fees (acquiring services that properly fit merchants' needs). Also, following the principle as laid down in PSD2, we observe that a surcharging prohibition might act as a catalyst for the acceptance of digital means of payments and prevent discrimination of certain types of payment.

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3.2 The legal tender status of euro cash

26. If it were decided to include a definition of legal tender status for the digital euro in EU legislation, please state your opinion on the following statements regarding the legal tender status of euro cash (banknotes and coins):

	Yes	No	No opinion
The current situation where the legal definition of the legal tender status of cash is set out in the 2010 Recommendation and ECJ jurisprudence is adequate.	X		
Legislative action at EU level is needed to enhance legal certainty and enshrine the legal tender status of euro cash in secondary law.		X	

Please explain your answers.

The current legislative framework (Commission Recommendation 2010/191/EU) complemented with the CJEU jurisprudence, notably in Joined Cases C-422/19 and C-423/19) is adequate as together they set out high-level principles on acceptance of cash whilst still allowing flexibility and freedom of choice, if properly justified. The CJEU clarified that a euro area Member State can oblige its administration to accept payments in cash but can also limit that payment option on public interest grounds. Such a limitation may in particular be justified where payment in cash is likely to involve the administration in unreasonable expenses because of the very high number of persons liable to pay. This flexibility and freedom of choice may be reduced or restricted, if more detailed provisions are included in possible future legislation.

27. According to your organisation, is there a need for a further definition of justified exceptions to the general principle of mandatory acceptance if those are grounded on reasons related to the 'good faith principle'⁷?

- Yes
- **No**
- No opinion

Please explain.

We consider that the exceptions as mentioned in Question 28 are already covered under the 'good faith principle'. This principle is sufficient to ensure flexibility and freedom of choice, and therefore we believe that there is no need to further define justified exceptions.

28. Which of the following exceptions should be defined?

⁷ Notwithstanding the preliminary judgment of the CJEU in Joined Cases C 422/19 and C 423/19, which states in par. 55 that it is not necessary that the EU legislature lay down exhaustively and uniformly the exceptions to that fundamental obligation, provided that every debtor is guaranteed to have the possibility, as a general rule, of discharging a payment obligation in cash.

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	Yes	No	No opinion
No party shall be obliged to accept more than 50 coins in any single payment (except for the issuing authority and for those persons specifically designated by the national legislation of the issuing Member State);		X	
If refusal is for security reasons;		X	
If the value of the banknote tendered is disproportionate compared to the value of the amount to be settled;		X	
If a retailer has no change available;		X	
If there would be not enough change available as a result of that payment for a retailer to carry out its normal daily business transactions;		X	
Any other exception			X

Please explain.

As per our rationale to Question 27, we consider that the exceptions as mentioned in this Question are already covered under the 'good faith principle' and included in the 2010 Recommendation. Therefore, there is no need to further define these exceptions.

29. Should there be a provision to require that additional exceptions to the mandatory acceptance principle may be proposed by Member States subject to approval by the European Commission after consulting the ECB?

- Yes
- **No**
- No opinion

Please explain.

We believe that the current structure is sufficient and allows for the necessary flexibility.

30. Should there be a provision for administrative sanctions for cash non-acceptance?

- Yes
- **No**
- No opinion

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Please explain.

The provision for administrative sanctions for cash non-acceptance seems to be an excessive and non-proportionate measure. Moreover, the 'good faith principle' always applies, therefore payees are expected to have valid reasons not to accept cash. Furthermore, in cases where cash is not accepted, consumers need to be informed properly and in advance. Market dynamics will make merchants decide whether or not to accept cash; first and foremost they will offer those payment methods that their customers want them to accept. Merchants should not be punished for responding to market dynamics.

31. Should the legislative proposal confirm the prohibition on surcharges on payments with euro banknotes and coins?

- Yes
- **No**
- No opinion

Please explain.

The current legislative framework (Commission Recommendation 2010/191/EU) complemented with the CJEU jurisprudence, notably in Joined Cases C-422/19 and C-423/19) is adequate to ensure the prohibition on surcharges on payments in euro cash. Furthermore, the topic is also dealt with indirectly in PSD2 with reference to electronic payment instruments: a discount offered on a digital payment cannot be understood as a surcharge on paying with banknotes and coins.

32. Since the effectiveness of the legal tender status of cash presumes the widespread possibility of having access to it, should there be a provision which aims to guarantee the availability of cash, such as an obligation on Member States to adopt rules to ensure sufficient access to cash and report these rules to the Commission and the ECB?

- Yes
- **No**
- No opinion

Please explain.

Despite the increase in the use of digital payment means, access to cash continues to be broadly ensured, mainly via traditional cash access points. In cases where the traditional cash access network is shrinking and if there is still an existing demand for cash, additional (alternative) cash access points provided mainly via independent ATM deployers, cashback, and cash-in-shop schemes are deployed or may be considered. Moreover, the use of cash varies greatly between Member States and circumstances relating to cash use, access and distribution (geography, consumer preferences etc.) are different in each Member State. EU-level rules on access to cash are therefore not needed. We note that

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the topic of cash access and acceptance is already monitored in Member States, sometimes through a national stakeholder forum including all the relevant parties. We consider such a set-up the most efficient and appropriate. It is, nevertheless, important to take into account that possible regulatory flexibility by national rules does not further increase an unlevel playing field between Member States, namely through potential costs allocations on financial intermediaries (and not other actors). Access to cash by vulnerable groups should be a responsibility of Member States and public authorities. The situation is very different among Member States, but it is also important that the flexibility introduced by national rules does not end up in an unlevel playing field between Member States, since some might be tempted to impose the respective costs on financial intermediaries (and not other actors) and others would be more inclined to consider such costs in the scope of their social public responsibilities. The implementation of this principle should not be carried out through regulation but through dialogue with the entities responsible for developing the cash access network.

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4. THE DIGITAL EURO'S IMPACT ON THE FINANCIAL SECTOR AND FINANCIAL STABILITY

33. What do you think the impacts of a digital euro would be on the business of providers of payment services and crypto-asset services?

	Positive impacts/ opportunities	Negative impacts/ challenges
Credit institutions	<p>If a digital euro is designed in a way to allow for private intermediaries to develop innovative services and not in a way that competes with existing payment means, the main advantage for credit institutions would be the digital euro distribution and ability to develop innovative and value-added use cases related to programmability.</p> <p>An additional positive impact would be the potential reduction of cash handling costs, if the use of cash was to decline as a result of a digital euro.</p>	<ul style="list-style-type: none"> • Possible disintermediation and deposit shift, decreasing bank liquidity and thus increasing funding costs and interest rates on loans. This can lead to increased refinancing costs and could be dangerous for economic stability, especially in a crisis. • Digital bank run risk. • Eurosystem focuses on the use of a retail CBDC in selected retail scenarios (PoS/e-commerce). This establishes a product that competes with existing banking payment offer. Its commercial role is unclear, if a digital euro is more than an equivalent to cash (i.e., "raw material" to the economy). • Cost risk for credit institutions due to currently unclear allocation of implementation costs and unclear business model.
Other payment services providers		
Crypto-asset services providers		

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Please explain your answer to question 33:

We are particularly concerned by the cyclical disintermediation that a digital euro could imply. The outflow of bank deposits could be considerable in the event of financial stress of a particular institution or a broader financial crisis. Setting a cap to the digital euro amount per client might look reassuring at this stage. However, unlike most prudential measures in which the ECB and other EU institutions can take their own decisions with little or no external influence, the caps set for a digital euro could be subject to market and/or public pressure. There is uncertainty as to how the approaches of other Central Banks and private institutions that create digital money will evolve. If other currencies, existing or new, raise their caps significantly, the ECB will be put under considerable pressure to follow suit. Such scenarios typically happen in times of stress or crises when there is less room for manoeuvre. The current excess liquidity context might hide a problem of cyclical disintermediation in a context of more restricted liquidity. We assume that the crowding out of deposits would be much higher than in any normal scenario and moreover any cap could be very hard to maintain in such circumstances. A severe scenario would result in multiplying the outflows compared to normal circumstances. We therefore believe that it is imperative to abandon the idea of a soft rate disincentive in favour of a hard cap which could be enshrined in a legislative framework, ensuring that it is maintained even in times of financial stress or crisis. The hard cap could only be raised in a pre-agreed manner on EU political level not related to crisis circumstances, for instance linking it to the inflation rate. Indeed, in times of stress, the soft rate would not be sufficient to deal with deposit outflows.

We are also highly concerned by structural disintermediation, whereby the shift of retail bank deposits to digital euro could have unintended consequences on the role of banks in maturity transformation and the funding of the economy as well as on the ability of fixed rates financing. The effect could be important in the euro area banking system because it is based on retail deposits, and currently deposits from households constitute approximately 46 percent of the funding of European banks. The crowding-out of bank deposits in normal circumstances will depend on the design features of a digital euro (beyond the caps/limits), such as what type of payments a digital euro intends to serve and the associated functionality (cash-like or far more), how it interoperates with existing payment solutions, the cost structure and even how the authorities frame and "advertise" a digital euro. In addition, the profit and loss (P&L) effects for banks will be increased by the costs of developing, building and operating the infrastructure for a digital euro, and it can become a significant burden for credit institutions.

In the banking prudential framework, the most immediate impact would be on the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The prudential regulatory framework considers retail deposits as stable funding, which gives banks ample scope to provide long term loans. Currently, retail deposits are considered stable to a 95% extent in the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The impact on those ratios needs to be carefully examined. It is important that the regulatory balance sheet ratios and stress scenarios in connection with a digital euro are adjusted by the regulators to avoid any negative impact on banks. In order to have an estimated impact assessment, we have contemplated different scenarios of digital euro holdings and have concluded that the loss of funding capacity could be material with a range between several hundred billion to a trillion.

The issuing of a digital euro and the reduction in bank deposits would mean that to maintain their financing capacity, banks would have to consider alternative sources of funding, as both a hard cap or a soft rate disincentive will clearly not be sufficient to address their possible funding deficit. Market-based financing cannot be expected to

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compensate for the lost stable resources. This could be dangerous for economic stability, especially in a crisis.

Further risks are introduced if a digital euro would be a product that competes with existing banking payment systems, if the commercial role of intermediaries and business model are unclear, and if a digital euro is more than a form of money / raw material. Also, credit institutions will have cost risks due to currently unclear allocation of implementation costs.

34. How important would it be to limit the store of value function of the digital euro by, introducing holding caps, limitations to transactions, or different interest and/or fees disincentives on large holdings?

Please rate each aspect from 1 to 5, 1 standing for 'not important at all and 5 for 'very important.

	1	2	3	4	5	Don't know/not applicable
For financial stability purposes (e.g. to prevent bank runs in crisis situations)					X	
To prevent that the digital euro structurally disintermediates credit institutions (e.g. large conversion of bank deposits to digital euro)					X	
Other (please specify)						

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

Any new solutions based on a digital euro must in no way jeopardise the current financial and payment systems and financial stability.

Depending on its investment characteristics, a central bank digital currency can induce depositors to turn their commercial bank deposits into central bank liabilities. Particularly in times of crisis, there could thus be an abrupt and large-scale conversion of bank deposits into digital euro, which would be a bank run in digital form. This can increase banks' funding costs and, consequently, credit interest rates, potentially reducing the volume of credit to European households and economy. In such scenario, banks may try to increase their funding from central bank loans, implying an increase in securities that can serve as collateral with the central bank, which ultimately would increase interest rates for securities in the collateral pools, increasing the cost of bank financing. Even if deposits were replaced by capital market financing, there would be an increase in the cost of bank financing, causing banks to deleverage with a consequent decrease in the supply of credit. This would prevent an optimal level of investment and aggregate consumption and,

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therefore, economic activity. A hard cap to digital euro holdings could prove an effective way to avoid the adverse effects of large-scale deposit replacement. Considerations about the introduction of holding limits to the store of value function also require a reflection on the possible limitation of the number of digital euro accounts every citizen is allowed to hold (and how this would be enforced/controlled), in order to be effective. Without limiting the number of positions per citizen, a cap per position would not sufficiently preserve financial stability. At the same time, we need to take into account that remuneration on a digital euro may pose some doubt on the legal tender status. How would it be possible for a digital euro to be just another form of central bank liability besides banknotes, while the digital form would bear interest and the analogical form would not? Would they have the same value then?

At the same time, a digital euro would increase central bank liabilities. Central bank assets will have to rise correspondingly. The more CBDC is issued, the more assets the central bank will have to acquire. This raises important questions about the role of central banks in the economy. Will the central bank buy government bonds? Will it fund commercial banks to enable them to lend? If that is done against collateral as present central bank rules stipulate, the cost of credit to the economy will increase. Will it fund lending directly? How will central bank asset management policies be governed? Are permanent asset purchase activities within the central bank's remit? Are they compliant with the central bank's monetary mandate and restrictions (e.g., ban on monetary financing)?

In addition, if the traditional banking business model is compromised, banks may be led to take greater risks in an attempt to obtain higher returns and compensate for reduced activity and higher funding costs.

Current design discussions for a digital euro rightly focus on the need to safeguard financial stability in Europe. However, proposed security measures such as hard caps need to also consider the merchant side of a digital euro transaction. It needs to be carefully determined how businesses would be able to receive digital euros from their customers, and how a procedure could automatically convert them into commercial bank money.

35. How would holding limits or disincentives to the store of value function affect the usability of the digital euro in the various use cases below?

Please rate each aspects from 1 to 5, 1 standing for 'significantly decrease in its usability' 3 'no change in its usability' and 5 for 'significant increase in its usability'.

	1	2	3	4	5	Don't know/not applicable
Person-to-Person payments			X			
Person-to-Business payments		X				
Business-to-Business payments	X					
Machine-to-Machine payments				X		
Other (please specify)						

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To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

The average daily payment amount effected by an individual is less than 100€ in the euro area (SPACE 2020), for which there is no need to store a huge amount of digital euros. Therefore, limits would not be detrimental for usability. Explicit caps on holdings (not on transfers, for which a waterfall bank account might be set to divert excesses on holdings) are easy to understand and would facilitate the adoption of a digital euro, especially because they would help users to control their spending. Remunerations, especially with different tiers, could be confusing and disincentivise broad adoption.

The needs of the industrial sectors for B2B and M2M payments should be developed by market actors, potentially on top of a digital euro. This aims to best cater for the needs for automatic high amount payments within the DLT-based smart contract-systems on various DLT-platforms driven directly by industrial actors or intermediaries. Solutions for this should be left to the financial sector and other supervised intermediaries.

Holding limits or disincentives to the store of value function could partially affect large payments (this is mostly the case of B2B payments), while it should be less relevant for daily and small payments. While such limits and disincentives are desirable so as to not cause an excessive shift of funds from bank deposits, we deem that some solutions could be provided in order not to affect the usability of a digital euro for large value payments (e.g., waterfall approach).

36. How would a retail digital euro without any holding limits or disincentives for store of value function impact the following aspects of the EU credit institutions?

Please rate each aspects from 1 to 5, 1 standing for 'significant decrease' and 5 for 'significant increase'.

	1	2	3	4	5	Don't know/not applicable
Volume (value) of retail deposits	X					
Volume (value) of corporate deposits	X					
Liquidity / bank run risk					X	
Volume (value) of new credit provision	X					
Revenue from payment services	X					
Net interest revenue		X				
Ability to perform anti money laundering	X					

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(AML) and other compliance obligations	X					
Costs due to operational risk in retail payments				X		
Other (please specify)						

To the extent you deem it necessary, please explain your reasoning including whether your assessment would depend on whether the digital euro is a bearer based instrument or is account-based and provide quantitative evidence or estimates.

Should a digital euro be introduced without a limit on the amount to be held, or with a limit that would be too high, there could be a large-scale conversion of bank deposits into digital euro. The extent to which bank deposits would be replaced by a digital euro can hardly be calculated in advance. Important influencing factors are the current level of market interest rate and thus the interest rate differential to the (non-interest-bearing) digital euro, perception of the security of bank deposits by depositors (general economic situation, financial stability/business situation of banks). This would (significantly) reduce the possibility of refinancing of commercial banks via customer deposits. Banks would need to compensate the loss of deposits with new sources of funding which would increase the costs of funding. Ultimately this might lead to a lower capital ratio as profitability will be lower. At the same time, if banks decided to offset this cost increment by investing in assets with higher return, which are usually riskier, this would also negatively impact their capital ratio due to the increment in the risk weighted assets. As a result, either the supply of credit could decrease or credit costs could increase, since commercial banks would have to use other and more expensive refinancing options. Net interest revenue would tend to decrease if the refinancing costs were to rise due to the outflow of bank deposits. In addition, in case of a massive substitution of bank deposits the wholesale market would be unable to absorb all the demand for liquidity by institutions in the face of a massive displacement of customer deposits outside the banking system. Therefore, new sources of liquidity (such as new TLTROs) would be needed. A digital euro would also aggravate the intensity and speed of a potential liquidity crisis in times of stress by providing retail customers an agile, unrestricted, and secure digital channel to central bank money.

Depending on central bank asset policies (see response to question 34), central banks could end up directly competing with banks in financial markets and lending.

In addition, the ability to perform AML functions is dependent on a possible privacy / anonymity threshold for certain transactions, and the access to transaction information by intermediaries. Having no limits will change a digital euro's functionality from payments-oriented to store of value oriented, which will significantly increase money laundering risks. These risks would increase even higher in the bearer-based model that would minimise the mandate and responsibility of supervised intermediaries.

Depending on the services offered by a digital euro and the cost of using it for individuals and businesses, we do see a significant risk of reduction in payment revenues.

37. What are the risks and impact on credit institutions of the non-issuance of a digital euro, for example in the scenario of a successful stablecoin in the EU?

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We note the following risks, however these would apply only in case where a successful stablecoin is widely adopted and used by the general population and businesses for payment purposes, which is currently not the case. If this would be the case, even a well-calibrated and successful digital euro would probably not be effective but further regulatory measures may be needed as well.

- **Disintermediation**

There is a risk that big techs or decentralised solutions introduce a stablecoin (see Libra, Paypal) and thereby weaken the importance of the euro. This could disintermediate banks. If a single highly successful stablecoin were to be offered in the EU by a tech player, this concept would be in sharp contrast to that of account-based banking. The impact on credit institutions would depend on who issues the stablecoin and how it is created (deposit-backed or liquid assets-backed). In case a liquid assets-backed stablecoin would be successful, the impact may be similar to that of a CBDC, if public trust in it would be high (i.e. draining deposit base, with its associated impact on financial intermediation, increasing risk of runs, etc.)

There is a further risk that other, foreign CBDCs gain significant share in Europe (e.g., like dollarization in emerging economies) and thereby disintermediate banks.

- **Interoperability**

Although each individual bank could be able to offer its customers its own stablecoin, this would not initially guarantee acceptance outside the issuing bank. Stablecoins are digital values in the form of tokens. They are not held in accounts as in conventional banking and once issued, as with cash, no banks are needed to act as intermediaries in the transaction. A peer-to-peer transaction outside the banking system would therefore be possible. For users, the question nevertheless arises as to what would guarantee the “value proposition” of the token. A common solution by the financial sector could solve this issue, setting a common standard between banks, with close cooperation with the regulator, allowing banks to issue tokenised commercial bank money. This could lead to an interoperable network of commercial bank money token, which could have positive effects for innovation in the Eurozone with all the different needs of different sectors addressed and could raise the efficiency of the European economy.

- **Risk of a run**

There may be a run on a stablecoin for many reasons – for example, if money exceeding the funds held in the escrow account is issued, i.e., credit is created or due to the underlying assets not being liquid enough.

- **Liquidity risk**

Liquidity risk means that there is a delay in meeting redemption requests. Liquidity risk depends on the market liquidity of the assets held by the issuer, e.g., the stablecoin’s reserves. It may be increased by the fact that, unlike official local currencies, there is no obligation to accept the stablecoin.

- **Repayment risk**

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There is a fundamental difference between a traditional bank deposit and a deposit in stablecoins. A bank deposit of 100 euros entails a legally binding obligation to repay it in banknotes to the value of 100 euros. In the case of stablecoins, there is merely a non-binding promise to stabilise the book value of the reserves. Compared to traditional bank deposits, there is therefore also a repayment risk.

- **Cost risk**

In case of issuing a stablecoin, the issuing costs are high at current interest rate level, therefore disincentivising for banks. A slightly changed legal framework – giving bank-issued tokenised money the same legal classification as today’s commercial bank money / deposits – would solve this.

- **Risk of losing sovereignty**

Due to the emergence of private stablecoin solutions and CBDCs in different parts of the world, European-managed private initiatives and ECB investigation of a digital euro are important in the context of European sovereignty. It is fundamental to issue a digital euro in a manner that increases European intermediaries’ ability to provide innovative and competitive services.

38. How would a retail digital euro without any holding limits or disincentives for store of value function impact the following aspects of the EU payment service / crypto-asset service providers (excluding credit institutions)?

Please rate each aspects from 1 to 5, 1 standing for 'significant decrease' and 5 for 'significant increase'.

	1	2	3	4	5	Don't know/not applicable
Volume (value) of funds on payment accounts hosted by payment institutions, e-money institutions or crypto-asset service providers	X					
Volume (value) of payments initiated by payment service providers or crypto-asset service providers from third party accounts	X					
Direct revenue from payment or crypto-asset services	X					
Revenues from investing the balance of payment or crypto-asset accounts	X					
Revenues from data management	X					

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Ability to perform AML and other compliance obligations				X		
Costs due to operational risk in retail payments and crypto-asset services						X
Other (please specify)						

To the extent you deem it necessary, please explain your reasoning including whether your assessment would depend on whether the digital euro is a bearer based instrument or account-based and provide quantitative evidence or estimates.

The impact on payment providers will depend on which value-added services will intermediaries be able to provide, and which characteristics will a digital euro offer by default (EU Id Wallet disintermediating payments apps/ impact on instant payments/...). Potentially the impact could be as disruptive as it is for credit institutions.

39. Where could duly licensed financial intermediaries offer value in the distribution of the digital euro?

Please rate each aspects from 1 to 5, 1 standing for 'no value' and 5 for 'very significant value'.

	1	2	3	4	5	Don't know/not applicable
Experience in on-boarding of customers					X	
Experience in Know Your Customer (KYC) and AML checks					X	
Efficient transaction verification and execution					X	
Experience in customer management					X	
Developing additional services using the digital euro					X	
Existing IT system for customer, front and back office services that could be adapted to the digital euro					X	
Other (please specify)						

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To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

A digital euro should be distributed by private sector intermediaries similarly to the cash distribution system and there should be a business model for the intermediation of a digital euro. Supervised intermediaries should be able to offer new innovative services, if a digital euro will be programmable. However, the exercise of designing innovative services boosted by a digital euro is challenging today, because CBDCs are unprecedented and enabling effects could trigger entirely unknown avenues for value-creation. We are not yet able to imagine the entire future scenario, as it was the case for the internet in the early 90's. If a digital euro were to be programmable, use cases would arise over time, without the need to be foreseen in advance. Market actors will explore new services and value propositions to enhance the European digital economy. In this sense, a programmable digital euro could be seen as a powerful raw material for payments, that can be used by supervised intermediaries to build up new, innovative services. For this to happen, it is important to ensure that the ECB develops a robust and flexible core infrastructure that leaves enough room for private financial sector innovation to deploy new business models.

In addition, banks could ensure resilience to the entire ecosystem, give greater security to the safekeeping of a digital euro, mitigate operational risks, and be accountable entities for regulatory requirements such as AML/CFT. Banks play an important role in countering money laundering and terrorist financing and can ensure proper Know Your Customer (KYC) processes. Across these fields, they have considerable experience to offer. However, it is of paramount importance to clarify and understand the need that a digital euro will respond to, in order to understand how and when banks can play a role in AML/CFT controls and in fraud prevention, as well as the concrete AML risk associated to it.

The advantage to citizens of involving banks in the process would be that they could have their digital euros transferred directly to/from existing bank accounts. Furthermore, the banking system's existing core competencies, such as customer proximity, existing access channels (branches, online solutions), setting up accounts/wallets, KYC, AML and CFT processes could continue to be used without the Eurosystem having to set up new infrastructures and processes.

40. How much increase, do you expect, in payment service providers' (including credit institutions') expenses related to the distribution of the digital euro? Please consider all possible cost elements (e.g. front office and back office services, administrative costs, IT costs, compliance cost etc.)⁸

Please rate each aspects from 1 to 5, 1 standing for 'no increase at all' and 5 for 'very significant increase'.

	1	2	3	4	5	Don't know/not applicable
One-off expenses					X	
Annual expenses				X		

⁸ While costs would very much depend on the design and functionalities of a digital euro, we are looking at broad estimates and further explanation, including on cost drivers, which will inform Commission impact assessment

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Others, Please specify						
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Please explain your reasoning and provide quantitative evidence or estimates/ranges on these expenditures.

It is important to note that a significant risk arises from the revenue banks could lose, in addition to increased expenditure.

For the distribution and management of a digital euro, initial expenses would be required at least to enable the new functionalities of IT, accounting and other procedures, adapt to any new regulatory standards, adjust processes and provide training. However, not even basic model elements of a digital euro are known at this point, making it impossible to indicate estimates. This is particularly true for possible recurring costs. The impact on annual expenses would depend on how a digital euro is finally designed; the more it uses existing technology and procedures, the less cost it would add to PSPs' costs.

As payment services are continuously evolving, it is to be expected that business rules and technical infrastructures have to be updated and upgraded from time to time. The cost of this evolution will depend on the relevance and frequency of those modifications. We believe that a clear change management policy should be established. This policy should take as a reference the well-established TARGET2 and SEPA Scheme management policy, that is:

- all stakeholders should be involved in the proposal and decision on changes to be made;
- all 'programmed changes' shall be included in a single "change release" to be implemented at a previously agreed point in time; and
- there should be no more than one release per year.

Depending on the commercial concept of a digital euro and the degree of freedom allowed in charging for basic services and additional value-adding services, PSPs could face additional financial losses, if the use of payment products with market prices would be reduced.

41. Using the digital euro, what additional services could your financial institution develop for your customers?

A digital euro should be distributed by private sector intermediaries similarly to the cash distribution system and there should be a business model for the intermediation of a digital euro. Supervised intermediaries should be able to offer new innovative services, if a digital euro is programmable. However, the exercise of designing innovative services boosted by a digital euro is challenging today, as explained above. With a programmable digital euro, use cases would arise over time. The ECB should allow for intermediaries' own design choices in developing wallets, solutions, and value-added services around a digital euro, thereby promoting a market-oriented, resilient and diverse ecosystem. Intermediaries should be enabled by the ECB to implement innovative functionality into their proprietary wallet solutions, to foster the acceptance of a digital euro.

As also mentioned in Q.10, envisioning new services based on a digital euro, PSPs could:

- develop innovative use cases for payments in digital euro: several use cases may potentially be implemented leveraging on the concept of split transaction (applied to

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revenue sharing or multiple payments that require atomic transaction) or implementation of rules and limits for expenditure of funds (such as in public payments, like targeted bonuses). Other use cases may be related to M2M payments or could be identified in the banking/insurance sector, such as trade finance operations or insurance claims settlements (programming features). In other sectors, a digital euro could be used for loyalty programs (e.g. pay-per-use);

- provide ad hoc services based on programmability for businesses (e.g. smart contracts, on-chain transactions);
- integrate digital euro services for merchants together with cash collection and digital payments at POS (e.g. automated payments); and
- implement innovative, fast and reliable AML/KYC processes, e.g. by building upon a European digital identity solution.

On top of the basic functionalities, regulated payment service providers may develop value-added functionalities, such as chargebacks or dispute resolution in merchant payments, pay-upon-delivery functionalities in e-commerce, or proxy lookup payments in P2P transactions, and others that are currently available in private solutions.

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates/ranges on the benefits expected from these additional services.

For banks to be able to develop value-added services, it is important to ensure that the ECB develops a robust and flexible core infrastructure that leaves enough room for private innovation to deploy new business models.

Also, we must take into account that many potential value-added services will rely on access to and use of data. Therefore, it is important that the authorities' focus on **privacy not translate into a general ex-ante restriction** on the use of data from digital euro transactions. Payment data is a core element for banks e.g. to provide credit and also to offer improved personalised solutions.

For certain value-added services, it could be expected that intermediaries will need to develop industry-wide scheme(s) in order to ensure interoperability.

5. APPLICATION OF ANTI-MONEY LAUNDERING AND COUNTER TERRORIST FINANCING (AML-CFT) RULES

42. How various design models of a digital euro would impact the AML/CFT compliance costs of private intermediaries? (1 = 'no impact', 5 = 'very high increase in cost')

Design option	1	2	3	4	5	Don't know/not applicable

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Account-based digital euro, available online⁹				X		
Bearer-based¹⁰ digital euro, available online				X		
Bearer-based digital euro, available offline				X		

For each option, please provide quantitative/qualitative evidence or estimates if available.

Irrespective of the design of a digital euro, all the requirements of AML/CFT rules must be adhered to. However, the precise technical design of a digital euro will have an influence on costs. Equally, stricter AML/CFT requirements will also lead to higher costs.

An account-based digital euro (and therefore also a bearer-based digital euro online) could have nearly similar costs as today, with the exception of the initial setup costs but could also be more costly depending on the precise design and associated requirements. Prerequisite is that citizens are well-identified, and this identification could be used for the digital euro account. The bearer-based digital euro available offline may have significantly more initial costs (depending on a well-made digital identity, potentially upcoming solutions like EU-Id), but with a clear (low) upper limit, only the initial KYC for the registration of the wallet would be important. Compliance costs could increase in the case of bearer-denominated digital euros available offline, due to the necessity to verify transactions online. A cost increase could also occur, if stricter monitoring of a digital euro has to be observed during its introductory phase.

Compliance costs do not relate only to bearer- (on-/offline) or account-based digital euro. They also depend on the choice of a cap for holdings and use. The limit itself has an important impact on compliance costs. Without an upper limitation (e.g. in a tiered model), the compliance costs could be permanently much higher compared to today. Hence a hard cap is needed also from an AML/KYC perspective.

43. Intermediaries will have to perform a series of controls and checks according to AML/CFT requirements. In comparison with existing requirements applying to other means of payments, what would be the specific challenges with digital euro payments to best ensure prevention and combat of money laundering and the financing of terrorism?

Banks play an important role in countering money laundering and terrorist financing and can ensure an added value in terms of KYC. They have significant experience in this field. It is of paramount importance to clarify and understand the need that a digital euro will respond to, in order to understand how and when banks can play a role in AML/CFT controls, as well as the concrete AML risk associated to it. The AML legal framework should

⁹ In an account-based model, payments in digital euro would be initiated by end users but transferred by supervised intermediaries managing accounts on their behalf. In this scenario, AML/CFT requirements are expected to be performed by supervised intermediaries distributing the digital euro.

¹⁰ In a bearer-based model, payments in digital euro would be initiated and transferred by end users directly, without the need of a third party (supervised intermediary) playing a role in the transaction. Supervised intermediaries may be involved in the system, notably for the performance of AML/CFT requirements such as the onboarding of users, in addition to other activities such as the loading digital euro funds into digital euro wallets.

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be considered and respected. The obligation for the bank to apply the AML rules assumes that the user has a business relationship with the bank or performs an occasional transaction, according to the AML definitions. Without such a “role” for the bank it is not possible to run these controls. Similar to a transaction in cash between private individuals, no intervention is possible for the intermediary.

Principal challenges will be, firstly, to control the number of digital euro accounts that a person has, and secondly, to enforce compliance with sanctions if payments are settled instantly. Without limits to the number of digital euro accounts/wallets held, digital euro “mule accounts” could be used. Money could also be laundered through various accounts via automated mechanisms. Both practices would represent a significant risk to the existing AML/CFT regime.

A level playing field should be ensured between different digital means of payment. Therefore, the regulatory AML/CFT environment should be optimised in order to maintain its current robustness, while allowing for innovation and instantaneity – which is not only applicable to a digital euro but to current existing SEPA instant payments as well.

A digital euro should not aim for transaction data being accessible only to the ECB. Restricting intermediating banks’ access to the data on digital euro transactions would have negative consequences. Banks need to continue to have access to transaction data amongst others for security, operational and fraud prevention reasons. Data privacy should not be understood in the sense that the intermediating bank would not have access to the transaction data. Specific privacy features (e.g., anonymity under certain thresholds) would significantly hinder compliance to AML/CFT requirements.

At the same time, a digital euro could offer new possibilities to enhance the efficiency and effectiveness of supervision through technology, embedding supervisory and monitoring frameworks directly into the systems. This could be structured for example leveraging programmable aspects of the currency, or via an application programming interface. The objective should be to alleviate the reporting and other compliance burden of obliged entities, while maintaining of course an obligation of obliged entities to identify and report suspicious activity.

44. In case the digital euro provides for a functionality that would allow the user to perform low-value transactions offline, what challenges do you think this functionality could generate in the prevention and combat of money laundering and the financing of terrorism?

From an AML/CFT perspective, offline use would create similar challenges to cash transactions of similar amounts. Given the digital nature of a digital euro, and especially if combined with a bearer instrument and anonymous features, these challenges could increase. We would also note that low value transactions can still be used for serious predicate offenses (e.g., online child abuse/exploitation, human trafficking, etc.). If there is no limit one single account per person, high tech smurfing techniques and mule accounts can be used to circumvent AML/CFT measures.

Yet at the same time, digital euro transactions might be easier to trace compared to cash transactions, depending on their characteristics and recording time. This can positively contribute to AML and CFT. Furthermore, any increased risk associated with money laundering can be countered by setting a fixed upper limit on transactions. This upper limit would not refer to the number of offline transactions but to their total amount. This is

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possible regardless of the underlying architecture, i.e., account-based or bearer instrument. Illegal activities could also be prevented by KYC requirements and certain limitations on payee site-wallets.

45. In your opinion, how would the risks related to money laundering and terrorism financing of a digital euro allowing the user to perform low-value transactions offline (proximity payments) compare to other payment options listed below?

Please indicate in each line your assessment of the relative risks.

	Low-value offline digital euro transactions <u>less risky</u>	Low-value offline digital euro transactions <u>equally risky</u>	Low-value offline digital euro transactions <u>more risky</u>	Don't know/not applicable
Digital euro online payments		X		
Cash payments	X			
Online payments in commercial bank money			X	

For each option, please provide quantitative/qualitative evidence or estimates if available.

There would be less of a risk from money laundering with a digital euro than there is from cash because established checks and mechanisms in current electronic payments could also be used for a digital euro if there is no anonymity. However, high quality AML/CFT will only be possible with a holistic view of the customer which takes into account all forms of money/payments.

It should be kept in mind that, given the unclarity around the digital euro design choices, it is very hard to assess at this time what data points will be available to carry out necessary AML and CFT checks. For already available online payments being conducted via commercial banks' systems, the highest standards regarding AML and CFT compliance are fulfilled. Therefore, it must be seen as the least risky payment alternative.

6. PRIVACY AND DATA PROTECTION ASPECTS

46. Which features could appropriately enhance the privacy and data protection of the digital euro users? Note that these features are without

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prejudice to the lawful grounds of processing, as specified in Article 6 GDPR and the application of AML requirements, as appropriate.

Please rate each business case from 1 to 5, 1 standing for 'not appropriate at all' and 5 for 'very appropriate'.

	1	2	3	4	5	Don't know/not applicable
Ability to mask the identity of the payer or the payee to each other ('peer-to-peer pseudonymity')	X					
Ability to mask the identity of the payer or the payee to the other party's intermediary ('intermediary-to-intermediary pseudonymity')	X					
Ability to limit the knowledge on the identity of the payer or the payee to the central bank, and/or other third party intermediaries not involved in the transaction					X	
Ability to completely hide the identity of the payer and payee for low-value offline transactions	X					

Please explain your answer to question 46:

We believe digital euro transactions should have the same level of data privacy and data protection as digital payment means currently uphold. Intermediaries comply with GDPR and keep users' data safe. Building different privacy functions would not be appropriate, could be very costly to implement for the industry and could end up being confusing for users.

Generally speaking, we consider that GDPR is a horizontal regulation that should be applied to different situations, including a digital euro. For instance, we consider that the different legal bases for processing data related to digital euro (AML, execution of payments, etc.) are already included in the categories listed in Article 6 of the GDPR (execution of the contract, compliance with a regulation...). The existing legal grounds should be enhanced without creating overlaps limiting the legal grounds for digital euro and at the same time, with reference to the potential use of data of the end user for "other purposes", the existing legal grounds should be used (i.e., opt-in for marketing purposes).

47. The Commission has identified a number of potential activities related to digital euro that could entail the lawful processing of personal data by either private intermediaries or central banks in charge of initiating the digital euro transactions and services. How appropriate are those activities for the lawful processing of personal data?

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Please rate each activity case from 1 to 5, 1 standing for 'not appropriate' and 5 for 'very appropriate'.

Purposes	1	2	3	4	5	Don't know/not applicable
Fight against money laundering, organised crime / terrorism					X	
Enforcement of tax rules			X			
Payments settlement purposes					X	
Management of operational and security risks				X		
Enforcement of potential holding limits				X		
Additional innovative online services and functionalities				X		
Other, please specify						

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

48. Should the central bank be able to access personal data for the purposes listed below?

	Yes	No	Don't know/not applicable
Payments settlement purposes		X	
Operational resilience/security risks assessment and mitigation purposes		X	
AML/CFT			X
Fraud		X	
Other, please specify			

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To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

Central banks should not have access to individual users' personal data. Their access should be limited to aggregated data.

Instead, access to personal data for the purposes listed above should be possible for regulated intermediaries providing their services with a digital euro. Private intermediaries can already perform critical tasks due to their comprehensive experience in the fields of operational resilience, security, AML/CFT rules and fraud detection. At the same time, a digital euro could offer new possibilities to enhance the efficiency and effectiveness of supervision through technology, embedding supervisory and monitoring frameworks directly into the systems. It is up to authorities to assess the need to access this data to implement these new possibilities.

Consequently, it is not necessary to involve the central banks here. It would be unnecessary for the ECB as a public institution to collect and use personal data for its intended model, which involves regulated intermediaries. Access and possible storage of personal data at a pan-European level by one central organisation also creates big risks due to a single point of failure/attack. Therefore, as far as possible, data access of the central bank should be limited to a bare minimum.

Also, a digital euro, by its intrinsic nature, can attract cyber-attacks that could have an impact on the integrity of data and/or the value of the currency. Ultimately this could weaken citizens' trust. The service providers distributing and dealing with a digital euro will have to be highly resilient in the face of cyber-risks and capable of providing a high level of protection and response, as is currently the case with regulated financial intermediaries.

49. Should users of a digital euro have the possibility to 'opt-in' and allow their personal data and payments transaction data to be used for commercial purposes, for example to receive additional services from intermediaries?

- **Yes**
- No
- Don't know/no opinion

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

Existing digital payment means already have very high privacy standards that comply with data protection and privacy provisions. Data processing is always done based on the appropriate lawful basis, in line with the GDPR. It is important that the authorities' focus on privacy does not translate into a general ex-ante restriction on the availability and use of data from digital euro transactions. Access to payment transaction data is essential for banks to fulfil their compliance obligations, for instance with regard to AML/CFT, fraud prevention and detection. Customers should be able to consent for intermediaries to use their payments data in order to benefit from value-added services offered by banks. Appropriate access to data for the involved intermediating banks is fundamental to support the provision of secure and convenient financial services that respond to customer needs, particularly within the data economy. In this context, data from digital euro transactions should not be precluded from being used to deliver value to digital euro users, with

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adequate safeguards; not factoring in this possibility would undermine the development of an open finance framework and the European data economy more broadly – both priorities for the European Commission. Also, payment data is particularly valuable for banks in the provision of credit. It records not intentions (e.g. assessed by polls), but actual purchasing decisions in real time and with great accuracy (i.e. no forecasting). This knowledge about customers allows banks to analyse risks better and provide credit more accurately and at better price. For example, payment data represent more than half of the information used in the scoring of consumer credit models based on client behaviour. The accuracy of these models is dramatically higher than those that do not have historical information, allowing better risk and price management which benefits both customers and banks. Furthermore, banks have earned the trust of their customers by using data in a responsible way, while ensuring both security and privacy of the customers.

7. INTERNATIONAL PAYMENTS WITH A DIGITAL EURO

50. How desirable would it be that the digital euro is available for the following users and use cases?

Please rate each use case from 1 to 5, 1 standing for 'not desirable at all' and 5 for 'very desirable'.

	1	2	3	4	5	Don't know/not applicable
Euro area (EA) residents and intra EA payments					X	
Non-resident visitors to the EA (tourism dimension)				X		
Selected non-EA residents for trade purposes with third countries	X					
All international retail transactions with third countries without limits on residency and geography of transactions (trade dimension)		X				
Other Please specify						X

To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

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Despite the fact that the international dimension of a digital euro is not a priority at this initial stage of the project, the ECB should be aware of and involved in the development of global standards in order to avoid that the initial design decisions hinder a potential future interoperability of a digital euro with other CBDCs.

A digital euro would be primarily intended to serve consumers in the eurozone. It should, therefore, be available primarily to citizens of Member States in the eurozone, but also to consumers from third countries who are resident in a Member State or who are temporarily staying in the eurozone, for example as tourists. Use of a digital euro by consumers internationally may be strictly limited given the potential impact on monetary policy and the financial stability of the eurozone as well as of third countries. Cooperation between central banks is to be welcomed as the consequences of allowing consumers from third countries to use a digital euro should be duly considered (e.g. it may be necessary to link any transactions to a payment account in the eurozone).

Further, access to digital euro by institutional bodies which could use a digital euro to reach countries with low financial inclusion (emerging markets) for humanitarian purposes could be considered.

As to trade purposes, a wholesale-oriented digital currency, suited for large value cross-FX payments, would be much better suited than a retail focused digital euro. Existing payment infrastructures are different for retail vs wholesale payments; we do not think a single digital euro solution should try to address both dimensions, however bearing in mind that the biggest hurdles at cross-border level are not linked to technology/currency but to rules, regulations, and business cases at the same time – that would lead to a compromise solution that is worse than the current alternatives available.

For a digital euro to be used for global cross-border payments, a different design to the one currently proposed would be needed. Considering the nature of cross-border payments that involve different jurisdictions and currencies, it is key that all central banks that will issue a CBDC define common rules and standards, leveraging on the work being done at the Bank for International Settlement level.

51. If the digital euro is available for EU citizens living outside of the euro area, how do you assess the impact (risks) of the following aspects in these non-euro-area Member States?

Please rate each aspects from 1 to 5, 1 standing for 'no negative impact/ increase in risk' and 5 for 'very significant negative impact/increase in risk'.

	1	2	3	4	5	Don't know/not applicable
Financial disintermediation				X		
Financial stability				X		
Monetary autonomy				X		
Capital movements				X		

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Others Please specify						X
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To the extent you deem it necessary, please explain your reasoning and provide quantitative evidence or estimates.

Just as euro banknotes and coins are of little day-to-day practical use for payments purposes for EU citizens abroad, a digital euro too would be of little value. We therefore struggle to see the use of (large quantities of) digital euros available to EU citizens abroad, other than for store of value. Moreover, for a digital euro to be used for payments purposes outside the eurozone, it would require an acceptance network outside the euro area, and interoperability across other jurisdictions' CBDC solutions, which may not be realistic.

From this perspective, an extensive use of a digital euro in non-euro-area Member States could affect the economies, monetary systems and exchange rates, with the need for non-euro Member States to adopt similar instruments to monitor their monetary systems and economic ratios. If a digital euro would be overly attractive (e.g. without a limit) in the non-euro-area Member States, this could lead to disintermediation or increased risk of a bank run in times of crisis. Thus, such availability could lead to risks for financial stability across the borders.

In general, if a digital euro is made available to EU citizens outside the euro area, that must have a fixed limit in order to avoid significant deposit outflows.

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About EBF

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure, and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.