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EACB Position Paper
on ECB Report on a digital euro
(January 2021)

About the EACB:

The **European Association of Co-operative Banks** ([EACB](https://www.eacb.coop)) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 27 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 2,700 locally operating banks and 52,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 214 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 85 million members and 705,000 employees and have a total average market share of about 20%.

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The voice of 2.700 local and retail banks, 85 million members, 214 million customers in EU

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Introduction

The EACB appreciates the opportunity to comment on the ECB Report on a digital euro, which is part of a global discussion about Central Banks Digital Currency (CBDC). We realize that the ECB is at cross-roads. On the one hand, the ECB has long been aware of the risks related to the CBDC. In particular, a CBDC could structurally disintermediate the banking system.¹ In addition, in a crisis situation, CBDC could trigger digital bank runs of unprecedented speed and scale, magnifying the effects of such a crisis.² On the other hand, the rising number of stablecoins as well as the experiments with CBDC by other central banks are pushing the ECB to consider its own CBDC – a digital euro. Given that the ECB may have limited policy options to regulate international stablecoins, issuing a digital euro may be a relatively effective way to police stablecoins by exerting competitive pressure on them thanks to offering an alternative and leveraging on its price stability and available safety nets. A digital euro may also be necessary to prevent stablecoins and/or platforms from dominating the payments system.

The EACB welcomes the ECB's approach to introduce a digital euro only if it fulfils the financial stability requirements. As Yves Mersch has observed, '[t]he ECB's debate on CBDCs is [...] mainly analytical. Whether and when it becomes more of a policy debate will largely depend on the preferences of households. ... The lack of a concrete "business case" for a CBDC at present should and does not stop us from seriously exploring the optimal design of a CBDC so that we will be well prepared should we ever take a policy decision to issue a digital currency. ... We will only introduce a digital currency if we become firmly convinced that it is both necessary and proportionate to fulfil our tasks in ensuring the stability of our currency.'³

We share ECB's concerns concerning CBDC's impact on the financial system and its stability as well as the lack of a business case. As it is not sufficiently understood, it needs much more research and requires an intensive debate with all stakeholders including banks.

The ECB's decision to issue a digital euro will require assessing the value of opportunities to further pursue its objectives, balanced against any risks. The most valuable opportunities that encourage issuance will be where a digital euro can support a central bank's public policy objectives. Other opportunities abound (e.g. reducing illegal activity, facilitating fiscal transfers or enabling "programmable payments"), yet unless these have a bearing on a central bank's objectives, they should be secondary considerations.

EACBs key messages regarding the idea of a Digital Euro

- A digital euro should be designed in a way to stimulate competition among banks in providing innovative payment services rather than hampering and crowding out private solutions.
- The digital euro could jeopardize the funding base of small regional banks such as cooperative banks which are mainly funded by deposits as they still perform the traditional functions of retail banks providing credit, in particular to SMEs.
- Regardless of the form, the ECB should offer the digital euro in an indirect manner, via private entities.

¹ Ulrich Bindseil, 'Tiered CBDC and the Financial System', ECB Working Paper Series No 2351/January 2020, available at <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2351~c8c18bbd60.en.pdf>.

² Yves Mersch, 'An ECB digital currency – a flight of fancy?' Speech at the Consensus 2020 virtual conference, 11 May 2020, available at <https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200511~01209cb324.en.html>.

³ Yves Mersch, Ibid.



- If the ECB introduces the digital euro as a bearer instrument, held in a certified offline wallet, it could enable tokenised commercial bank money by creating a common European standard for it.
- If the ECB introduces the account-based digital euro, it should distribute it in a two-tiered structure whereby users hold their CBDC accounts with private entities, which are mirrored by CBDC balances at the central bank.
- The digital euro should not be remunerated and be a payments device not a wealth storage. It should only have basic features and be supplied in a limited amount with low quantitative limits on digital euro holdings for users.
- The digital euro should not compete with private payment instruments. It should be up to private entities to offer any additional functionalities attributable to a digital euro.
- The digital euro should have high, albeit not complete, level of anonymity, or sufficiently secured pseudonymity, whereby privacy would be entailed as between the users but traceable for Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF) and other relevant public interest purposes.
- Only licenced and supervised entities should intermediate the digital euro.
- Rolling out the digital euro would require developing very costly infrastructure. Financing of such infrastructure should be clarified and should not be imposed on any type of providers without an opportunity (business case) to recover such costs.
- Central banks have to be informed about and study the impact of potential CBDC, but the ultimate decision to implement it should be based on a solid cost-benefit analysis, weighting tangible benefits for users (consumers, merchants, corporations) and the impact on the financial system including banks and especially small and mid-size co-operative banks serving consumers and SME across Europe.

Specific Comments to the question of the consultation

5. WHAT ROLE DO YOU SEE FOR BANKS, PAYMENT INSTITUTIONS AND OTHER COMMERCIAL ENTITIES IN PROVIDING A DIGITAL EURO TO END USERS?

The EACB appreciates that the ECB would consider it necessary to issue a digital euro only if one of the scenarios envisaged in the Report on a Digital Euro materializes. However, as the effects of a Central Banks Digital Currency (CBDC) are not yet fully understood, we are deeply concerned that a digital euro may potentially undermine the role of banks in the economy, especially co-operative banks, and destabilize financial markets. Therefore, should the ECB decide to issue a digital euro, we call for an utmost care in the design of its underlying infrastructure. We set out below seven priorities from the European co-operative banks industry for a digital euro (if it is ever introduced).

As a side note, the discussion among the EACB members revealed that there is a need for clarity and standardization of terminology used with regard to concepts such as 'token', 'wallet', 'account-based' digital instruments and so on. It would also be beneficial to use such concepts consistently across the different policy debates concerning digital financial markets. In this paper, we use the term 'bearer' digital euro in the same way that the ECB uses it in its report.

1. Digital euro should not undermine the social market model of the EU economy

Digital euro should not undermine the principle of social market model of the EU economy. The requirement that the EU be based on the social market model is a Treaty principle (Article 3(3) of the Treaty on European Union). It is therefore absolutely necessary that the digital euro would be offered to citizens and companies in a manner



that does not compromise the credit supply function of private banks and financial stability of the system. Offering innovative payment solutions to the public and interacting with customers should primarily be the task of the private sector.

2. Private entities should intermediate the digital euro

The ECB should not offer a digital euro directly to the public but rather through private intermediaries, regardless of whether the ECB issues a digital euro as a bearer instrument, in an account-based form or both.

If the ECB offers a digital euro as a bearer instrument usable in an offline mode only, we would like to suggest, beyond the ideas that the ECB is already exploring, to also consider tokenised commercial bank money and the benefits that they can offer. The EACB is exploring this with its members.

Second, if the ECB issues an account-based digital euro, it should offer it in a two-tiered structure whereby individuals or companies access their CBDC accounts at the ECB through private banks. Under no circumstances individuals and companies should have a direct access, even limited or tiered, to a CBDC account at the central bank. Otherwise, the central bank would start operating as a massive retail bank in direct competition with private banks. A central provision of deposit accounts would centralize an important element of normal market activity and would contradict the principles of a social market economy.

The coexistence and complementarity of central bank and commercial bank money have been the foundation of the payments ecosystem and preserved the stability of the monetary system. The two complement each other: central bank money ensures the stability of the financial system while the multiplicity of commercial bank money issuers preserves competition and innovation. Their interplay and interchangeability at par value ensure the safety and efficiency of the financial system.

If the ECB issues a digital euro, it should complement the existing system, not undermine it. Competition and innovation should remain the task of the private sector and the ECB should be careful not to crowd it out. By contrast, a disappearance of private banks would not only stifle innovation in the payment markets but also undermine the stability of the financial system because banks would no longer be in position to select and monitor creditworthiness of borrowers. Banks' credit supply to the economy would diminish.

3. A digital euro should not jeopardize the funding base of cooperative banks

As the ECB is itself aware, a possibility to hold digital euros directly at the central bank would induce some, if not all, depositors to transform their commercial bank deposits into digital euro holdings, which would significantly increase private banks' funding costs. In particular, this would jeopardize the funding base of small and mid-size banks, such as many cooperative banks, which are predominantly funded by deposits. The effect of a digital euro on small and mid-size banks would be much more profound than on commercial universal banks because the latter fund themselves also in international capital markets whilst the former do not. For these small and mid-size banks the introduction of "digital cash" could have a profoundly negative effect, as the main source of their funding would be reduced. These institutions could thus face challenges to fulfil their minimum liquidity requirements for both the LCR and the NSFR. Indeed, as the LCR is a stress indicator, sudden massive shifts from banks' deposits to central bank's liabilities would mostly affect the ratio via the outflow measure and even exacerbate pressure in case of shocks that affect customers' liquidity preferences. For the NSFR, the customer deposit base is a key source of long-term funding for cooperative banks, which could be eroded with serious consequences.



We urge the ECB to consider the potential negative effects of the digital euro on cooperative banks as they play an essential and unique role in the economy and are an important provider of funds to SMEs.

4. There should be no direct access to central bank accounts. Tiered remuneration would not prevent the destabilizing effects of a direct access to central bank accounts

The ECB is also aware that direct access to digital euro holdings at a central bank would undermine financial stability. It would be much easier for users to shift digital euros from private banks to a central bank than it is now to withdraw physical cash, so bank runs would become more likely. Tiered remuneration on digital euro holdings, as proposed by the ECB, would not prevent bank runs because individuals believing that their bank might go bust would accept lower or even negative interest rates on their holdings rather than risk losing access to their funds.

The ECB should never disregard the profoundly negative effect of direct access to central bank accounts on financial stability. We emphasize this because even though the ECB states in its report that it would prefer an indirect access to the digital euro for the public via credit institutions, in other passages of the report it discusses the option of a direct access to the ECB accounts for the public. The ECB should only issue a digital euro in a two-tiered structure.

5. Institutional position of the ECB as an independent banking supervisor should be preserved

Introduction of a digital euro should not alter the institutional position of the ECB as a banking supervisor. A direct retail access to a digital euro would seriously alter the institutional position of the ECB. The ECB sits at the centre of the Single Supervisory Mechanism directly supervising the largest Eurozone banks and overseeing all other Eurozone credit institutions. By granting direct retail access to its accounts, the ECB would become a retail bank and would have to follow all applicable legislation, for instance, related to Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF). The question then arises: who would supervise whether the ECB follows such legislations properly? Moreover, the ECB would enter into competition with private banks and face a conflict of interest. Thus, on the one hand, the ECB would likely have to become subject to supervision itself, on the other, it would have to divest of its supervisory tasks.

6. Risk of a single point of failure should be avoided

A direct retail access to the digital euro on the ECB accounts would likely lead to the disappearance of payment accounts in private banks. As a result, the ECB would become the single point of failure. Redundancy in the form of multiple private banks is necessary to ensure resiliency of the system.

7. A business case for a digital euro is needed

A digital euro should be introduced only if there is a strong business case. Distributing a digital euro should not undermine banks' financial standing. All payment instruments have associated costs (for infrastructure, logistics, support, AML/CTF measures et cetera), and the EACB cannot agree with the opinion that 'Eurosysteem has a responsibility to ensure that costless, risk-free payment options remain available to all.'⁴ Payments can be free of charge for users, but always come with costs, which have to be covered and require sustainable business cases.

⁴ Fabio Pannetta, 'On the edge of a new frontier: European payments in the digital age', Speech at the ECB Conference "A new horizon for pan-European payments and digital euro" of 22 October 2020.



Years of negative interest rates and the Covid 19 pandemic have already put banks in a strenuous situation and non-performing loans will only rise. Banks have also been making and will continue to make heavy investments in the European Payments Initiative (EPI). An additional need to fund the distribution of a digital euro would endanger the position of banks, and they would lose the ability to finance the investments necessary for EPI, because the rollout of the digital euro will require an infrastructure which will be enormously costly to build. The conditions for the distribution of a digital euro should be such that there would be a business case for the entities distributing it or for the acquiring side of payments with a digital euro.

6. A DIGITAL EURO MAY ALLOW BANKS AND OTHER ENTITIES TO OFFER ADDITIONAL SERVICES, ON TOP OF SIMPLE PAYMENTS, WHICH COULD BENEFIT CITIZENS AND BUSINESSES. WHAT SERVICES, FUNCTIONALITIES OR USE CASES DO YOU THINK ARE FEASIBLE AND SHOULD BE CONSIDERED WHEN DEVELOPING A DIGITAL EURO?

When developing a digital euro, the ECB should focus on two key considerations. First, the ECB should put customers' needs at the center and seek to further strengthen the competitiveness of the payment system. Second, it should not undermine financial stability, the sovereignty of the euro and the autonomy of the EU economy.

That means that a digital euro should be as simple as possible, and its main strength should be that it is central bank money. The digital euro should moreover be offered in a limited amount and, as the ECB itself stresses, complement rather than substitute the current system. The ECB should refrain from competing with the private sector to offer an attractive payment instrument. Otherwise, the ECB would ultimately stifle competition and innovation in the private sector without being able to substitute it on its own. Continued innovation and efficiency are essential to drive efficiency in a payment system and provide safer payment instruments. Moreover, individuals and companies should generally be free to decide which means of payment they use.

Two other considerations support the argument for a basic digital euro that is easy to use. First, the simultaneous implementation of the digital euro in all Eurozone countries will be highly complicated. The more complex the digital euro is, the more difficult its implementation will be.

Second, a more complex digital euro may be too difficult for the general public to comprehend, especially if its complex from the start. Already today, the digitalisation of the payment services has left some parts of the society behind. A complex digital euro may further increase financial exclusion.

The ECB's insistence that a digital euro should not be a form of investment but should rather be attractive for users as a payment instrument, thanks to its competitive features, is at odds with the ECB's claim that the digital euro should not compete with commercial banks. If the digital euro was to be very attractive thanks to its usability features, it would compete with commercial banks' payment instruments.

To conclude, the digital euro should only offer basic features and it should be left to the private sector to develop innovative functionalities enhancing the digital euro. Private payment service providers should offer such functionalities on a competitive basis, competing for users to choose them as intermediaries for the digital euro holdings.

7. WHAT REQUIREMENTS (LICENSING OR OTHER) SHOULD INTERMEDIARIES FULFIL IN ORDER TO PROVIDE DIGITAL EURO SERVICES TO HOUSEHOLDS AND BUSINESSES? PLEASE BASE YOUR ANSWER ON THE CURRENT REGULATORY REGIME IN THE EUROPEAN UNION.



The digital euro has to follow the principle of “same business, same risk, same rules, same regulation”. Hence, if the digital euro would be digital cash, then all its intermediaries should be subject to the current requirements for the cash logistic supply chain (except of physical storage and transport) as well as AML/CTF, GDPR and requirements for IT security. Only licenced and regulated intermediaries should be allowed to offer the digital euro. A failure of a single participant could undermine confidence in the whole system. Therefore, there should not be a ‘supervision-light regime’ for newcomers.

We consider that if the digital euro should complement physical cash and not further contribute to its decline, all institutions that would like to and are allowed to offer digital euro, should also be obliged to offer normal cash or participate in carrying the cost of providing normal cash.

8. WHICH SOLUTIONS ARE BEST SUITED TO AVOIDING COUNTERFEITING AND TECHNICAL TAKES, INCLUDING BY POSSIBLE INTERMEDIARIES, TO ENSURE THAT THE AMOUNT OF DIGITAL EURO HELD BY USERS IN THEIR DIGITAL WALLETS MATCHES THE AMOUNT THAT HAS BEEN ISSUED BY THE CENTRAL BANK?

The digital euro should be based on the best technical solution available to ensure fast, reliable, transparent payments which are 100% secure so that any mistakes originate solely from human mistakes and not technology. Such technology should be selected at the time when a digital euro is rolled-out. As this is a hyper fast-moving environment, it is difficult to predict what the technology will be at that time. And it is impossible to say anything more until we know the technology used and whether the digital euro would be an account-based or a bearer instrument.

9. WHAT TECHNICAL SOLUTIONS (BACK-END INFRASTRUCTURE AND/OR AT DEVICE LEVEL) COULD BEST FACILITATE CASH-LIKE FEATURES (E.G. PRIVACY, OFFLINE USE AND USABILITY FOR VULNERABLE GROUPS)?

It is of paramount importance that the digital euro design and its legal setting enable technical and economic synergies with other digital means of payments. A digital euro per se will not be able to perfectly replicate all desirable features of physical cash. At the same time, it is possible to reduce or avoid the disadvantages of physical cash (for example, counterfeit, physical deterioration, economic and environmental impact of logistic cycles).

Privacy: In theory, for a digital euro to be a full alternative to cash it should offer full anonymity in peer-to-peer payments. However, as with every digital transaction, data trails are unavoidable and necessary for the functioning and integrity of the system. What is more, full anonymity would be at odds with AML/CTF legislation. A central bank should not introduce a new means of payments that is attractive for illicit transactions (just like cash is today). Thus, from the AML/CTF perspective, a central bank would be more likely to introduce a digital euro with cash-like features which guarantees full anonymity between parties below a certain level but which gives the central bank a possibility to trace the persons involved (if necessary).

Offline usability: It should be absolutely impossible to ‘create’ counterfeit digital euro in digital wallets. Offline usability of a digital euro creates the risk of fraudulent or accidental double-spending. This can be mitigated by two general, not mutually exclusive control mechanisms. The first addresses the technical environment on the payer’s side (e.g. a mobile device). Here, the application must be sufficiently robust to prevent tempering. This can be achieved, for instance, through Secure Element technologies that are already used in mobile payment solutions. In addition, digital euro bearer instruments transferred in an offline setting could be subject to an “offline expiry date”: if this is



reached, an online validation with the central/decentral ledger has to take place before the bearer instrument can be used in a further offline transaction. In other words, one can conduct only a limited number of peer-to-peer transactions using her wallet until a transaction with a formal POS terminal is done. This would open the possibility for the central bank to check at regular intervals whether the total amount of digital euro has changed due to 'digital counterfeit' actions. The second control mechanism follows the idea, that only the payer's device may be offline, while the beneficiary's device keeps an internet connection in order to ensure real-time validation.

Usability for vulnerable groups: A digital euro could create the risk of financial exclusion. To prevent it, the ECB should first safeguard that the digital euro will not accelerate the decline of cash usage. Second, the ECB should have in mind the need to decrease rather than increase financial exclusion when designing a digital euro. Hence, among others, a digital euro should be easy to use technically. It should not overwhelm users with complex features but instead, at least at the beginning, offer only basic functionalities.

In general, digital solutions may increase financial inclusion by improving the situation of the unbanked people. However, 'traditional' digital means of payment are sufficient to increase financial inclusion and a digital euro is not necessary to achieve this. At the same time, a digital euro could establish new barriers, for instance, for visually or motor-impaired persons, or simply people who are less tech savvy or digitally illiterate. Consumers who cannot interact with digital devices could be excluded from a wide range of business transactions. To prevent this, the design of customer-facing CBDC-components should build upon the sound experiences of banks with respect to other payment and banking apps. Banks could further help the ECB to close the digital divide by providing easily-accessible payments components.

10. WHAT SHOULD BE DONE TO ENSURE AN APPROPRIATE DEGREE OF PRIVACY AND PROTECTION OF PERSONAL DATA IN THE USE OF A DIGITAL EURO, TAKING INTO ACCOUNT ANTI-MONEY LAUNDERING REQUIREMENTS, AND COMBATING THE FINANCING OF TERRORISM AND TAX EVASION?

Anonymity is both a virtue and a flaw of cash. Existing limits on cash transactions and the cash usage strive to strike an appropriate balance between privacy on the one hand and public interest on the other. A digital cash will need to be designed to achieve a balance between the two goals. This balance will have to be different though.

First of all, we advocate that a sufficiently high level of anonymity or even sufficiently secured pseudonymity are more suitable for a digital euro than full anonymity.

Second, in line with existing regulations for cash transactions, there should be a threshold below which a high level of anonymity would be ensured. This would be particularly relevant if cash disappears from the market. Above this threshold, public policy concerns related to AML/CTF and tax evasion should prevail and transactions should not be anonymous anymore.

Third, the digital euro should avoid the flaws of cash. It should be designed to ensure a better control that whatever limits on cash transactions there are, they would be observed. Otherwise, illicit transactions would move from cash to digital euro wallets.

11. THE CENTRAL BANK COULD USE SEVERAL INSTRUMENTS TO MANAGE THE QUANTITY OF DIGITAL EURO IN CIRCULATION (SUCH AS QUANTITY LIMITS OR TIERED REMUNERATION), ENSURING THAT THE TRANSMISSION OF MONETARY POLICY WOULD NOT BE AFFECTED BY SHIFTS OF LARGE AMOUNTS OF COMMERCIAL BANK MONEY TO HOLDINGS OF DIGITAL EURO. WHAT IS YOUR ASSESSMENT OF THESE AND OTHER



ALTERNATIVES FROM AN ECONOMIC PERSPECTIVE? (TIERED REMUNERATION IS WHEN A CENTRAL BANK SETS A CERTAIN REMUNERATION ON HOLDING BALANCES OF DIGITAL EURO UP TO A PREDEFINED AMOUNT AND A LOWER REMUNERATION FOR DIGITAL EURO HOLDING BALANCES ABOVE THAT AMOUNT.)

The EACB strongly supports low quantity limits on digital euro holdings and urges the ECB not to pursue the concept of tiered remuneration.

Any form of positive remuneration on a digital euro would have negative consequences for banks' funding costs and financial stability. A remuneration rate for digital euro holdings above zero would make the digital euro attractive as a store of wealth. Thus, from an investment perspective the digital euro could become more attractive than private banks' deposits and sovereign bonds, which could lead to large shifts from private banks' deposits to digital euro holdings with all the negative consequences that have been described in Question 5.

To make the digital euro unattractive as an investment, the ECB is proposing a tiered remuneration model with less attractive interest rates above a certain threshold of holdings. Tiered remuneration would aim at preventing private customers from converting their bank deposits into the digital euro on a large scale. However, if the ECB decided to apply a remuneration rate on digital euro holdings, the digital euro would become both an investment product competing with private banks' offer and an instrument of monetary policy by steering the investment and savings behaviour of citizens and firms.

In a scenario where cash disappeared altogether, the ECB would be able to apply negative interest rates on the digital euro improving, in theory, monetary transmission. However, such a step would take monetary policy deep into uncharted territory, with totally unpredictable outcomes. What is more, it cannot be taken for granted that the ECB would be able to introduce negative interest rates for the public as such a move would likely face strong opposition. People could also avoid negative rates by switching to a foreign currency or stablecoins or even cryptocurrencies. In such circumstances, it might be better to focus less on monetary policy and more on aggressive fiscal stimuli, if necessary in combination with a certain amount of monetary financing. So the case for potential remuneration on a digital euro-account is not very strong.

Finally, tiered remuneration would not prevent bank runs as citizens and companies can be expected to accept lower or even negative remuneration on CBDC in exchange for the higher safety of central bank liabilities. By contrast, hard quantity limits on digital euro holdings are essential to prevent uncontrollable shifts from commercial bank deposits to digital euro holdings in times of stress. Without hard limits, the digital euro would open the doors for much more serious, systemic bank runs, undermining the stability of the banking system. Even in non-crisis times, large and volatile flows between private bank accounts and digital euro accounts would make it much more difficult for banks to manage their Liquidity Coverage Ratios. Thus, hard limits are of the utmost importance. Without hard limits the introduction of the digital euro would be, from the stability point of view, absolutely unacceptable.

And yet, hard quantity limits are also not a silver bullet against bank runs. The history of financial crises has shown time and again that in a midst of a crisis, the otherwise binding rules tend to be modified, disappplied or rewritten to remove the pressure from the market and save it from self-destruction. From among many examples, let us only point to the unprecedented expansion of the central bank balance sheets in the wake of the Global Financial Crisis 2007-2008 when the central banks purchased the types of assets, e.g. mortgage-backed securities, they had never bought before. Likewise, the very same crisis prompted the EU to significantly increase the level of bank deposit guarantees up to 100.000 euros. It is not difficult to predict, that when the next crisis hits, the ECB would find itself under enormous pressure to lift the limits for direct holding of CBDC leading to a massive bank run. An ex ante expectation that such limits would be removed, would



decrease the attractiveness of bank deposits also in normal times and ultimately accelerate bank runs.

To conclude, a digital euro should neither be used as a monetary policy instrument nor as a storage of wealth. Instead, just like physical cash, it should be used as a payment instrument only with zero remuneration. To minimize the negative effect of a digital euro on the banking sector and financial stability, hard quantity restrictions should apply to digital euro holdings. To be effective, the quantity limits should be very low. This is particularly important if the digital euro would become available to retail clients.

12. WHAT IS THE BEST WAY TO ENSURE THAT TIERED REMUNERATION DOES NOT NEGATIVELY AFFECT THE USABILITY OF A DIGITAL EURO, INCLUDING THE POSSIBILITY OF USING IT OFFLINE?

As we stated in Question 11, tiered remuneration would not prevent the digital euro from triggering massive bank runs and undermining financial stability. Citizens and companies can be expected to accept lower or even negative remuneration on the digital euro in exchange for the higher safety of central bank liabilities. Only hard, very low quantitative limits on digital euro holdings could address this problem.

Further, tiered remuneration would be very complex, if not impossible, to implement and manage for millions of users and accounts. Offline usage only adds to that complexity.

For these reasons, we urge the ECB to not pursue the concept of tiered remuneration.

13. IF A DIGITAL EURO WERE SUBJECT TO HOLDING BALANCE LIMITS, WHAT WOULD BE THE BEST WAY TO ALLOW INCOMING PAYMENTS ABOVE THAT LIMIT TO BE SHIFTED AUTOMATICALLY INTO THE USER'S PRIVATE MONEY ACCOUNT (FOR EXAMPLE, A COMMERCIAL BANK ACCOUNT) WITHOUT AFFECTING THE EASE OF MAKING AND RECEIVING PAYMENTS?

It is impossible to answer this question until we know the technology used for the digital euro and whether it will be account-based or a bearer instrument. Nevertheless, we would like to make some general observations. First, in all cases, it is important to design a mechanism that would not decrease the amount of digital euros in circulation. As digital euro would belong to M0, the ECB needs to fully control its total amount.

As regards an account-based digital euro, a straightforward automatic transfer to a 'regular' private bank account would not be workable for the following reasons. (1) It would be indispensable that everybody has a bank account which is not the case. (2) The total amount of digital euro would decline, and the amount of private bank money would increase. This could be avoided by having private banks hold such "excess" digital euros on special accounts ("vaults") and have them available for users who have not reached their capacity to obtain them just as they can withdraw physical cash. (3) This solution would compromise users' privacy.

Alternative solutions could be: (1) a warning that a digital euro account is already full and the transaction cannot proceed (problem with anonymity); (2) a shadow digital euro account where digital euros would be locked for a limited amount of time; (3) flexibility in the system whereby the upper limit for CBDC holdings could be increased for a limited amount of time. 10-20% of flexibility should be sufficient to ensure smooth processing of transactions without undermining stability of the monetary system. This option would be relatively easy to manage.

As regards a bearer digital euro, it could be held in certified wallets usable only offline. If there was an upper limit for an amount held in such digital wallets, they could



function without KYC requirements. If a certain limit, for example 75% of the total limit is reached, the customer could be warned with the option to digitally shift funds to their private bank account or another, non-CBDC, wallet. In this scenario, however, an additional monitoring mechanism would be needed to ensure that nobody could continuously send digital euros to another account circumventing AML/CTF controls. To ensure that the amount of digital euros in circulation does not decrease, the bank would have to keep the digital euros obtained in this way in a special "vault" for digital euros, just as for physical cash. Other users, with "free" digital euro "capacity" could then obtain digital euros from the banks' vaults just as they can obtain physical cash from a bank. A bank could also deposit such digital euros with a central bank.

14. WHAT WOULD BE THE BEST WAY TO INTEGRATE A DIGITAL EURO INTO EXISTING BANKING AND PAYMENT SOLUTIONS/PRODUCTS (E.G. ONLINE AND MOBILE BANKING, MERCHANT SYSTEMS)? WHAT POTENTIAL CHALLENGES NEED TO BE CONSIDERED IN THE DESIGN OF THE TECHNOLOGY AND STANDARDS FOR THE DIGITAL EURO?

It is impossible to answer this question without knowing the technology underlying the digital euro. However, regardless of the technology, for reasons that we stress in Question 5, it is essential to maintain the complementarity between the public and private banks and engage private banks in the process of integrating the digital euro into existing banking and payment solutions and products. The central bank should not provide end-to-end payment solutions but instead rely on supervised private institutions in the distribution and providing of user-facing services, as is currently the case. More generally, any digital euro should be introduced in a limited amount, with only basic features and based on the cutting-edge technology that is able to run smoothly if 300 million people want to make a transaction simultaneously. It is also crucial to avoid any distortion of competition between regulated and non-regulated actors.

If the digital euro was introduced on a broader scale, it would require significant investment in IT systems and processes by the central bank, the banking and payments industry, and the wider economy. To mitigate this burden, the design of the CBDC and its legal framework should be closely aligned with regulatory rules for other digital means of payments and should be interoperable with established payments solutions and schemes to enable exploiting technical and economic synergies. Otherwise, any potential merits of CBDC could not be justified given the need for additional complexity and redundancy.

Payment solutions for e- and m-commerce and Points-of-Sale (PoS) merchants would need to be updated to be able to accept payments with digital euros. However, the digital euro should also not require any huge investments in the infrastructure by either merchants or users.

Regardless of its form and underlying technology, the digital euro roll-out should proceed in stages. In the first step, access to the digital euro should be restricted to institutional clients (private firms) to determine, which concrete benefits a digital euro would bring about for institutional payment transactions and how the digital euro would be adapted in practice. This would also be in line with the premise of the ECB, according to which "the central bank should not be perceived as having embarked on a costly project without clear benefits" (see p. 19 of the Report on a Digital Euro).

15. WHAT FEATURES SHOULD THE DIGITAL EURO HAVE TO FACILITATE CROSS-CURRENCY PAYMENTS?

If – as the ECB suggests and the EACB advocates – a digital euro would primarily be a form of digital cash complementary to the current system, it is unclear how on its own it could facilitate cross-currency payments. To make cross-currency payments more



efficient, reliable and cheaper we need interoperable standards and links between payment systems and central banks issuing those currencies. A digital euro would need such links in the same way as current payment mechanisms do.

In addition, cross-currency payments in CBDC would face the same regulatory challenges as 'traditional' cross-currency payments: the fragmented global regulatory frameworks applicable when processing payments, that is, AML/CTF surveillance rules, cross-border transfer limits, etc.

16. SHOULD THE USE OF THE DIGITAL EURO OUTSIDE THE EURO AREA BE LIMITED AND, IF SO, HOW?

If the amount of digital euro would be very limited, it is difficult to see why at all its use outside the euro zone should have any significant impact on international payments. Euro banknotes are already used today as an international store of value.

However, with a higher amount of digital euros in circulation, EU's international trade could be settled in digital euro. In other words, foreigners could be allowed to have an account in digital euros and use it only in transactions with the Eurozone. A further-reaching strategic decision would be to allow countries which do not have a fully convertible currency to use digital euro not only for their trade with the EU but also for their domestic transactions. A decision whether they would also be able to use the digital euro would affect its international role. China targets its digital currency at African countries with the ultimate goal of strengthening the international role of renminbi at the expense of the euro.

On the other hand, too easy access to a digital euro could undermine monetary autonomy of the Eurozone. The limits on the use of the digital euro outside the euro area should be analogous to today's cash. There should be an upper limit for cross-border transactions.

17. WHICH SOFTWARE AND HARDWARE SOLUTIONS (E.G. MOBILE PHONES, COMPUTERS, SMARTCARDS, WEARABLES) COULD BE ADAPTED FOR A DIGITAL EURO?

For a real advantage, all hardware solutions should assist the digital euro in form of wallet inclusion, easy processes and euro-certified, depending on the details of used technology.

To solve the requirement of a crisis-backup of digital euro every solution must be usable over a longer time without electricity, network usage, etc.

Further hardware must be cheap and widely used for all citizens in the EU and allow digital inclusion. For instance, if the digital euro is available on apps only, it would exclude people with disabilities. Hence, the digital euro must be available also via simple solutions.

All certified software and hardware solutions could be adapted, but we foresee significant changes for all parties in the ecosystem.

18. WHAT ROLE CAN YOU OR YOUR ORGANISATION PLAY IN FACILITATING THE APPROPRIATE DESIGN AND UPTAKE OF A DIGITAL EURO AS AN EFFECTIVE MEANS OF PAYMENT?

The EACB appreciates the opportunity to take part in the further discussion about the structure, objectives and scope of a "Digital Euro" as a next step. We would welcome another consultation once more details are known, in particular concerning the technology underlying a potential digital euro. Our members would also welcome an opportunity to participate in experiments designed to test different features of the potential digital euro.