



Brussels, July 2022

EACB Position Paper

on the European Commission's targeted consultation on a digital euro

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%.

For further details, please visit www.eacb.coop

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

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EACB's key messages

The European Association of Co-operative Banks (EACB) welcomes the opportunity to respond to the European Commission's targeted consultation on a digital euro. EACB's key messages are as follows:

1. The case for a digital euro for the retail market in Europe is as yet unclear:

- **Potential micro and macro financial stability risks are significant:** The digital euro could jeopardize the funding base of regional banks such as cooperative banks and particularly those which are mainly funded by deposits as they still perform the traditional functions of retail banks providing credit, in particular to SMEs. This is a great concern of cooperative banks.
- **Potential benefits are highly uncertain:** The added value of a retail digital euro from a pure consumer perspective would be limited. Today's commercial banks' payment and account offer fulfils almost all needs already. For a retail digital euro to add value, it would have to be developed as a fully-fledged payment solution. This would, however, mean it would be an instrument that enters into competition with solutions of the private sector, lead to disintermediation of banks, a significant drop in commission income from offering payment services, and reduce the maturity transformation capacity of retail banks.

2. Wholistic view on digital money is needed: It would be important that regulators and industry form a holistic view of what kind of digital money (retail central bank currency, wholesale central bank currency, tokenised commercial bank money) Europe needs to achieve different policy goals, how urgent they are and who is best placed (central bank or commercial banks) to fulfil the objectives. In this regard, we welcome the Eurosystem's recent consultation on the use of new technologies in wholesale payments and securities settlement (wholesale CBDC).

3. Safeguards should be put in place: If the ECB nevertheless decides to launch a digital euro for the retail market, necessary safeguards need to be put in place to avoid the negative impacts on macro- and micro financial stability, deposits and funding costs of banks, and competition in payments market:

- Digital euro should **not compete with private payment instruments**, i.e. it should complement rather than substitute the current 2-tier money system (central bank money and commercial bank money).
- Digital euro should only have **basic features** and should be up to private entities to offer any additional functionalities attributable to a digital euro, in line with the ECB goal to create "an electronic form of euro banknotes".
- The holdings of digital euros in an account or wallet should **not be remunerated** so as to avoid it becoming a tool to store wealth or invest.
- There should be **low and strict limits** (maximum amounts) on digital euro holdings for users **set by law**.



- A digital euro should be introduced only if there is a **strong business case**. Payments can be free of charge for users, but always come with costs which have to be covered partially by the ECB for the back-end infrastructure and require sustainable business cases at least for the payment acceptance side. The business model for a digital euro should be market driven, transparent and competitive.

EACB answers to the consultation questions

Q1. 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
<i>Availability of flexible privacy settings that can be adjusted to suit the payment occasion</i>		X				
<i>Wide availability and user-friendly onboarding process</i>					X	
<i>Always an option for the payer to pay anywhere / to anybody in the euro area with digital euro</i>				X		
<i>Easy to use payment instrument (e.g. contactless, biometric authentication)</i>					X	
<i>Account-based payment instrument</i>	X					
<i>Bearer-based payment instrument</i>					X	
<i>Real time settlement / Instant reception of funds</i>					X	
<i>Cost-free for payers</i>				X		
<i>Payment asset is credit risk-free (central bank liability)</i>					X	
<i>Offline payments (face to face without connectivity)</i>					X	
<i>Ability to program conditional payments</i>	X					



<i>Other benefits (please specify)</i>							X
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We have approached the consultation questions from the point of view of the cooperative banks.

The overall view of the EACB is that the added value of a retail digital euro to EU citizens is limited, although the potential added value may vary across EU countries. Today's commercial banks' payment offer fulfils almost all needs already. For a retail digital euro to add value, it would have to be developed as a fully-fledged payment solution that fulfils all the above aspects if not more, this would however, mean it would be an instrument that enters into competition with solutions of the private sector, lead to disintermediation of banks and reduce the maturity transformation capacity of retail banks. This does not mean there is no room for a central bank digital currency. There could be but not necessarily in the retail domain.

Having said that, should a retail digital euro be launched:

1. Necessary safeguards need to be put in place to avoid the negative impacts on macro- and micro financial stability, deposits and funding costs of banks, and competition in payments market.
2. Digital euro should be supported by a sustainable business case.

Comments explaining our answers to questions in the table above:

- A digital euro should be easy to use, like cash.
- It should be technologically highly private by design. We would support greater privacy (P2P pseudonymity, intermediary-to-intermediary pseudonymity) for small transactions, up to a certain threshold. It should be kept in mind that availability of individual privacy settings would risk making a digital euro more complex and could push citizens to lower their privacy.
- A 1:1 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.
- A digital euro should be introduced only if there is a strong business case. All payment instruments have associated costs (for infrastructure, logistics, support, AML/CFT measures, etc.). Payments can be free of charge for users, but always come with costs which have to be covered partially by the ECB for the back-end infrastructure and require sustainable business cases at least for the payment acceptance side.
- Each transaction needs to be final, completed in real-time and free from credit and liquidity risk for users and intermediaries.
- While a digital euro could be designed as an offline or online payment instrument, the risks, limitations and the potential added value of various design options should be carefully assessed. For example, offline peer-to-peer validated transactions would best limit the risk that a digital euro can create to financial stability, impact on bank balance sheets and competition with commercial bank solutions. It also is the best option to fulfil the cash replacement policy objective. However this option does not



cater for the policy objective that aims to provide an alternative for unregulated payment solutions such as stable coins, plus may also not add much value in countries which already have a low cash usage and for which cash replacement is not a high priority. On the other side, online transactions validated by a third-party would offer more possibilities to develop attractive customer solutions but would also create more risks towards financial stability, to the bank balance sheets and competition with commercial bank solutions. A combination of the above options would overcome some of the limits of offline peer-to-peer validated digital euro. The risks of the second option would still have to be addressed by the ECB and EU policymakers.

- A digital euro should focus on the following use cases: P2P payments; physical store payments; e-commerce payments; possibly on Consumer-to-Government payments (limited to small amounts only); specific use cases such as lunch vouchers could also be considered.
- Other use cases should not be considered (machine initiated, business initiated, government payments). The private sector is better placed to cater for those use cases.
- Cross-border payments: the availability of the digital euro wallets for transactions also outside of the Eurozone should be explored, taking into account both opportunities and risks in political and economic terms. The offering of digital euro wallets, also outside the Eurozone, should be only possible for (foreign) certified intermediaries vetted against strict regulatory rules of the ECB.
- Programmability: There is a potential strong tension between programmability of payments and privacy. How deep may the government intervene with the way citizens deal with their finances? Programmability of payments related to contracts may have a significant added value. But one can also imagine that programmability of social security allowances may result in a breach of people's autonomy. Thus, a fundamental debate about how far the government may intervene in citizens' private dealings is essential. In any case, a digital euro should not be directly programmable. Programmability, if any, could be a wallet feature controlled by the user.

Q2. 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
<i>Low acquiring/merchant fees</i>				X		
<i>Better acquiring services</i>	X					



<i>Standards for EU wide acceptance infrastructure (e.g. POS), allowing for pan-European payments</i>					X	
<i>Account-based payment instrument</i>	X					
<i>Bearer-based payment instrument</i>					X	
<i>Real time settlement / Instant reception of funds</i>					X	
<i>Offline payments (face to face without connectivity)</i>					X	
<i>Other benefits (please specify)</i>						X

- Crucial factors for the acceptance of a digital means of payments by merchants lie in a high degree of acceptance by their clients (i.e. consumers) and afterwards in the economic soundness (investments and running costs). Rather technical aspects, such as the question of account based vs. bearer based, are subordinate to these factors.
- A well-designed (token-based) digital euro should not need clearing and settlement. This would reduce transaction costs.
- Most potential features of a digital euro listed under question 1 are standard features. Depending on the context, a lot of additional relevant functions are provided by existing payments solutions as offered by banks in Europe. Of course, a pure payment function is important for a digital euro, especially at physical points of sale and in e-commerce. But if a digital euro's main functionality for our economy is that it is a digital form of central bank money being an anchor for our currency system, it should be limited to that. For example, a digital euro in e-commerce payments will be still a prepaid payment solution. From a customer perspective, there is a need for e.g. a buyer protection to be sure to get the goods. This example shows the difference between the digital euro (it should be the money) and the payment solution with private add-ons for a buyer protection. 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.
- The business model of the digital euro should also include merchant acceptance of digital euro, as they will need to have their costs covered. The Eurosystem should carefully assess how businesses would be able to receive payments in digital euro and implement an efficient procedure for conversion into commercial bank money. On the acquiring side, new features will have to be developed and it is not conceivable these new services will be cost-free.

See also answers to question 1.



Q3. 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
<i>Paying with / transferring digital euros to a (natural) person face-to-face</i>					X	
<i>Paying with/transferring digital euros to a (natural) person remotely</i>			X			
<i>Paying for goods or services at a point of sale (face-to-face)</i>					X	
<i>Paying for goods or services remotely (e-commerce)</i>			X			
<i>Machine to machine Payments (Industry 4.0, IoT)</i>	X					
<i>Paying in situations without connectivity - offline face to face payments</i>					X	
<i>Other situations (please specify)</i>						X

- Mostly all payment situations are already covered very well by existing payment solutions offered by banks in Europe and by other technology providers.
- Remote P2P payment/transfer solutions already exist in some EU countries. Therefore, the added value of a digital euro P2P payments/transfers for people in those countries would be limited.
- A digital euro could provide added value in crisis situations, like natural disaster, blackout, system incidents, internet censorship if it is used outside the EU. But this only will work with a token-based and offline-payment assisting technological design.
- M2M payments will be an important driver of payment innovation in the digital economy but should be based on private sector innovations. The retail digital euro should leave ample room for intermediaries to develop business models for the development of these use cases, as CBDC is not strictly necessary for M2M payments.
- Furthermore, it is impossible to assess the value added without having information on the possible features of a digital euro.



Q4. 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
<i>Getting paid in physical shops, marketplaces, etc.</i>					X	
<i>Getting paid in e-commerce</i>			X			
<i>Paying invoices</i>	X					
<i>Trade finance</i>	X					
<i>Machine to Machine payments</i>	X					
<i>Paying in situations without connectivity – offline face to face payments</i>					X	
<i>Others (please specify)</i>						X

- Digital euro use cases for POS and e-commerce usage will replicate existing private payment instruments and would not add extra added value as such. Merchant/corporate acceptance of digital euro is very important and requires an understanding for onboarding of existing POS terminals via enhanced functionality, aiming for acceptance of all devices and wallets. Payment functionalities which are currently offered as part of value-added payment services (e.g. payment guarantee, chargebacks or dispute resolution in card-based payments) should also be considered as 'advanced' functionalities in a digital euro arrangement (and thus with the possibility of them being monetized).
- While trade finance generally is a wholesale business/process it impacts nonetheless everybody's life as consumers of the goods delivered via trade finance channels and end-to-end payment/data flows comprise not only wholesale, but in the end also retail business/processes (e.g. retail customers ordering and paying goods, which are then bundled by corporates via wholesale processes/payments). Trade finance today is still very manual due to the many documents needed, involves credit risk and cross-border payments/deliveries. In an environment of smart contracts and machine-to-machine



communication a digital currency payment linked to / triggered by smart contracts will make the whole process (almost) straight-through similar to STP in the securities world today. That said, the private sector is better placed to cater for this use case, also because digital euro will be retail-focused and for small quantities, hence not useful for large-value payments in trade finance.

- A digital euro should be designed for retail payments only and should not be used for large-value payments in trade finance. Corporates, in a broader way, should not be targets for the digital euro, as use cases (e.g. paying invoices and trade finance) are not aligned with its retail-orientation (incl. detention and/or transaction caps).

Q5. 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
<i>Providing access to public money in digital form for everyone</i>				X		
<i>Monetary sovereignty</i>				X		
<i>A stronger open strategic autonomy for the EU</i>					X	
<i>A broader access to digital payments for people with less digital skills, disabilities or other physical vulnerabilities</i>					X	
<i>A broader access to digital payments for unbanked people (i.e. without bank account)</i>			X			
<i>Enabling for pan-European payments</i>			X			
<i>Preserving privacy and data protection in payments</i>				X		
<i>Development of the EU's digital economy innovation</i>			X			
<i>Facilitating the provision of Europe-wide private payment solutions</i>	X					



<i>Providing a European public alternative to the emerging new payment solutions such as crypto assets, stablecoins and foreign CBDCs</i>					X	
<i>Decrease payment costs</i>			X			
<i>Other (please specify)</i>						X

- It would be important that regulators and industry form a joint holistic view of what kinds of digital money Europe needs to achieve different policy goals, how urgent they are and who is best placed (central bank or commercial banks) to best fulfill the objectives.
- Instead of introducing a retail CBDC only, a whole ecosystem of the digital euro is important to reach many of the above-named policy objectives, because the central bank’s proposal alone will not secure Europe’s digital and monetary sovereignty. The industry with their specific solutions needs to be involved as well. Commercial bank money tokens in particular – as a kind of digital euro – are especially important for corporate customers. A functioning bank money token is the basis for Industry 4.0. It would help to create highly automated processes and more innovative and seamless cooperation in the European industry and is therefore a key factor to European strategic autonomy. Therefore, in addition to CBDC, more advanced payment solutions developed by the banking industry will also play a major role in future. Tokenised commercial bank money should be issued, and existing payment systems should be geared to DLT-based business processes in order to create payment solutions to complement CBDC.
- A holistic CBDC project should also explore the possible introduction of wholesale CBDC in order to fully exploit the advantages of DLT in the capital markets. Some policy goals like the international role of the euro and improved cross-border/FX payments would require the introduction of wholesale digital euro, rather than a retail digital euro.
- EU monetary sovereignty can be strengthened by a combination of a wholesale digital euro, retail CBDC, tokenized commercial bank money.
- Payment costs would depend on the design of a digital euro. The costs of a digital euro could be lower in comparison to today’s physical cash logistics. Besides that, as the retail digital euro would exist next to existing private payment instruments, it could generate additional cost for both merchants and consumers, either directly or indirectly. Furthermore, if costs for use of the digital euro by consumers will be minimal (or even free), these costs will need to be covered by merchants (or the intermediaries). At least, the Eurosystem should bear part of the costs.
- A retail digital euro could reduce dependence of existing payment providers and provide a pan-European payment scheme. This should not crowd-out existing private sector initiatives. To create a pan-European payments infrastructure it would require the development of a payment layer, that is separate from currency layer. Digital euro



(being currency layer) is neither necessary nor sufficient to develop single European payment layer.

- If a digital euro aims to create more financial inclusion and simplify access to digital payments, specific design features should be explicitly considered. An important obstacle for inclusion is the lack of digital skills, and the digital euro should therefore facilitate ease of use such as bearer-based wallets which can be stored on (virtual) cards.
- Given the high level of account penetration in the EU, the digital euro will hardly increase payment account inclusion.
- Stablecoins: While a retail digital euro could provide an alternative to some crypto-assets and foreign (retail) CBDC, the best suited public alternative to private stablecoins would be to develop a wholesale digital euro. Also, in order to facilitate private sector innovation EU regulation should allow for well-regulated euro denominated private stablecoins.
- Innovation: digital euro is neither necessary nor sufficient to promote innovation in payments. That said, if the digital euro should support the digital economy innovation, it should base on a radical incremental technology approach.

Q6. 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
<i>Easy process of onboarding</i>					X	
<i>No need for bank account</i>					X	
<i>Easy payment process (initiating and authenticating a payment transaction)</i>					X	
<i>Accessible device for payments (e.g. chipcards)</i>					X	
<i>Enabling of offline, peer-to-peer transactions</i>					X	
<i>Other (please specify)</i>						X

- A retail digital euro should offer the same level of ease of use that consumers and merchants experience with existing private payment instruments to become a viable



alternative/additional payment method. This would cover both onboarding and the payments process.

- As noted earlier, to support financial inclusion specific design features should be added to circumvent current obstacles experienced by specific consumer groups, such as technologically less savvy and disabled people. This would call for a simple, low-tech, bearer-based wallet that is supported both offline and online. To cross the digital divide, it should be accessible via other devices than smartphones such as chipcards. Furthermore, a digital euro should be accessible by design for persons with disabilities, under the terms of the European Accessibility Act.

Q7. 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 without a (quasi) universal acceptance in physical and online shops			X			
A new form of pan-European instant digital payment complementing the existing offer for point of sale (POS, face 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	



<i>A digital means of payment offering programmable payment features</i>	X					
<i>Other (please specify)</i>						X

- We recognise the challenges that exist and lie ahead for Europe when it comes to payments: Europe does not currently have a 'homegrown' pan-European payment solution to be used at point-of-sale, e-commerce payments as this space is dominated by strong international actors. But there are currently different payment instruments with a pan-European reach (SEPA credit transfer, SEPA direct debit, international cards and wallets), and even one pan-European Instant Payment solution (SCT Inst) for P2P.
- The ease of uptake and of use for the consumer must be central in any digital euro considerations, to make a compelling offer to the market, which already offers 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 corner stone of the integrative digital euro project from early on.
- Universal acceptance: the digital euro should differentiate substantially with 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 adoption as long as private solutions fulfil end-user needs and/or offer superior features (the superior payment method).
- While a digital euro could be designed as an offline or online payment instrument, the risks, limitations and the potential added value of various design options should be carefully assessed. For example, offline peer-to-peer validated transactions would best limit the risk that a digital euro can create to financial stability, impact on bank balance sheets and competition with commercial bank solutions. It also is the best option to fulfil the cash replacement policy objective. However, this option does not cater for the policy objective that aims to provide an alternative for unregulated payment solutions such as stable coins, plus may also not add much value in countries which already have a low cash usage and for which cash replacement is not a high priority. On the other side, online transactions validated by a third-party would offer more possibilities to develop attractive customer solutions but would also create more risks towards financial stability, to the bank balance sheets and competition with commercial bank solutions. A combination of the above options would overcome some of the limits of offline peer-to-peer validated digital euro. The risks of the second option would still have to be addressed by the ECB and EU policymakers.
- Offline peer-to-peer transactions (one device or both devices offline) are of major importance in many scenarios, e.g. Death zone in telecom, system incident in telecom, isolated area (e.g. cellar), airplane or ship, blackout, grid / power overload, natural disaster, internet censorship.
- Programmability: There is a potential strong tension between programmability of payments and privacy. How deep may the government intervene with the way citizens



deal with their finances? Programmability of payments related to contracts may have a significant added value. But one can also imagine that programmability of social security allowances may result in a breach of people’s autonomy. Thus, a fundamental debate about how far the government may intervene in citizens’ private dealings is essential. In any case, a digital euro should not be directly programmable. Programmability, if any, could be a wallet feature controlled by the user.

Q8. 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?

	<i>positively affect</i>	<i>negatively affect</i>	<i>does not affect</i>	<i>Don't know/not applicable</i>
<i>Allowing for the distribution of the digital euro to take place through regulated financial intermediaries (Payment Service Providers)</i>	X			
<i>Offering another form of central bank money in the context of a declining use of cash for payments</i>	X			
<i>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)</i>	X			
<i>Using the digital euro acceptance network to foster pan-European private sector initiatives</i>	X			
<i>Other (please specify)</i>				X

Distribution through regulated financial intermediaries: Due to the similarity between the digital euro and the non-digital euro, there is no reason to set up digital euro accounts for citizens and firms directly at the ECB. The digital euro should - in the same way and under the same rules as the non-digital euro - rather be made available to citizens and firms through accounts held with the commercial banks. Financial intermediation is a cornerstone of the financial system which ensures financial stability, and this general principle should not be challenged by the ECB. We would like to emphasize our reasons why only an indirect access via credit institutions (through accounts with commercial banks) is a possible way to establish a digital euro:



- Accounts in a centralized digital euro infrastructure of the ECB would mean technical and organizational challenges and a huge amount of additional costs. The ECB infrastructure would have to process a massive volume of digital payments. The current infrastructure is not designed to handle such a mass of payments with an appropriate level of security and adherence to AML/CTF requirements. On the contrary, the commercial banks have implemented different payment channels and are used to apply the AML/CTF requirements in their daily business. Therefore, a direct operationalization by a centralized ECB infrastructure would not be proportionate with regard to the additional costs.
- A digital euro, which is held directly in ECB accounts would have less intrinsic risk in comparison to a deposit in a commercial bank as an insolvency of the central bank is unlikely. Especially, depositors could be induced by direct ECB accounts to transform their commercial bank deposits into digital euro holdings, which would significantly increase commercial banks' funding costs. Especially in crisis situations savers may very rapidly shift liquid assets from commercial bank deposits to digital euro holdings. In this context it must be borne in mind that the probability of crisis situations in the future will likely increase due to the easier spread of fake news via e.g. social media platforms.
- The holding of digital euro in ECB accounts would also jeopardize the funding base of small regional banks (as cooperative banks) which are mainly funded by deposits. These regional banks are also not active on capital markets. For these banks the introduction of a digital euro could have a negative effect, also if the holding of the digital euro would be limited with a certain threshold, as the main source of their funding would be reduced. These institutions would face challenges to fulfill their minimum requirements in LCR and NFSR. For these smaller regional banks, it would not be possible to substitute the lost deposit funding with central bank borrowing or capital market-based funding.
- Moreover, it is doubtful whether there is a valid legal basis in the TFEU and the Statute of the ESCB for making the digital euro available to citizens and firms through direct accounts held with the ECB. According to Article 17 of the statute of the ESCB the ECB and the national central banks may only open accounts for credit institutions, public entities and other market participants – not for citizens and private firms.

Holding caps: In order to ensure that the digital euro is used as a payment instrument only (and to avoid its use as a form of investment) it is highly important to foresee very low limits for digital euro holdings for individual users set by law. This is particularly important, if the digital euro were to be made available to citizens (retail clients). In case of unlimited access to digital euro holdings, there would be a dangerous systemic risk of uncontrollable shifts from commercial bank deposits to digital euro holdings in times of stress.

Remuneration/interest: Also due to the similarity between the digital euro and the non-digital euro we are of the view that there should not be a specific remuneration rate applied to the digital euro. The remuneration for the digital euro should be zero as for cash.

Declining use of cash: It is unclear whether/why CBDC is necessary as an anchor in digital space (as tends to be claimed by central banks). Private currencies could, like today, fulfil all functions in a trusted and well-regulated framework.



Q9. 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
<i>Possibility for programmable payment functionalities provided through the digital euro solution</i>		X				
<i>Possibility for integration with other payments solutions (independent of what technology they use)</i>				X		
<i>Integration with platforms relying on distributed ledger technology (DLT)/blockchain for smart contracts applications (beyond payments)</i>		X				
<i>Possibility for micro and stream payments</i>		X				
<i>Machine to Machine payments (Industry 4.0, internet of things (IoT))</i>		X				
<i>A digital euro that connects with the European Digital Identity Wallet ecosystem¹⁷</i>					X	
<i>Other (please specify)</i>						X

Above-mentioned innovations are important for the development of the EU digital economy, but do not necessarily require retail CBDC (currency layer) per se and could be achieved via private sector initiatives as well (payment layer).

The ECB does not need to provide all the above stated possibilities of use themselves (e.g. M2M payments), however should provide the basic core infrastructure to allow for intermediaries' own design choices in developing wallets, solutions, and value-added services around the 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 (beyond the pure payment function which is essential too) the raw material (platform) on which the market driven solutions could be built. This implies that the design of a digital euro should not be an obstacle to



developing its value-added functionalities.

Q10. 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 focus on the following priority use cases, which would be in line with the ECB goal to create “an electronic form of euro banknotes” and are important for the strategic autonomy: P2P payments; physical store payments; e-commerce payments; Consumer-to-Government payments (limited to small amounts only)

Further specific use cases could be piloted to test market adoption, e.g. lunch vouchers.

Other use cases should not be considered (machine initiated, business initiated, government payments). The private sector is better placed to cater for those use cases.

See also answers to previous questions.

Q11. 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?

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

EACB’s selected ranking is 3.

As a complement to cash, a digital euro should have a status of legal tender, similar to cash. However, if the main objective is to create an alternative payment method, its success depends mainly on the added value it would create, rather than its legal tender status. In general, the acceptance of digital euro will be driven mostly by the acceptance of the citizens / customers.

Q12. 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*

A clear and detailed definition of the legal tender status for the digital euro is important to provide legal certainty to all market members.

Today, much of the eurozone is patchwork, being it supervision, payments systems, DGS and so on. This is the logical result of the fact that all Member States had their own legacy which they brought along when they entered the eurozone.

The digital euro is a ‘clean sheet’ project: it is new for all Member States. So there is a



unique chance to do it right at the first effort, instead of further burdening the eurozone with more patchwork.

Q13. 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*

The interconnection between the physical and digital euro would be bolstered by harmonisation. To make the digital euro a payment alternative to cash, legal tender status of digital euro should have as many similarities with legal tender status of banknotes and coins as possible. 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).

Q14. 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*

In some cases, acceptance of digital payments cannot be expected from merchants (e.g. street market, farm shop). However, entry barriers should be as low as possible, so that market demand will increase the digital euro acceptance of all merchants.

Q15. 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*

The digital euro would require a harmonized approach. Any additional exceptions by only certain Member States in the euro area can increase costs and legal uncertainty for market participants and should therefore be kept at a minimum.



Q16. Should there be a provision for administrative sanctions for digital euro non- acceptance?

- Yes
- No**
- No opinion

Assuming that the digital euro would be a digital representation of cash it should build on the current practices of cash acceptance. Administrative sanctions are not part of the current arrangement.

Q17. 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
Government		X	
Utilities providers		X	
Large companies		X	
Merchants that accept private electronic means of payment	X		
Others, please specify			X

Legal tender status should not automatically imply mandatory acceptance, as is also not the case with coins and bank notes. This would also affect the acceptance of physical euro for these payees and could lead to inefficiencies.

See also answer to question 10 (use cases) and 14 (possible exceptions to digital euro's acceptance).

Q18. 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

Technological progress, the adoption of international standards providing technical synergies and an effective competition in the area of acceptance infrastructure and providers will lead to a decrease in acceptance costs, especially if the digital euro is token based and saves clearing and settlement costs.

Q19. 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?

	<i>With legal tender status</i>	<i>Without legal tender status</i>
<i>Type of additional costs</i>	Hard- and software costs Training costs	Hard- and software costs Training costs

- The types of costs that would occur for merchants are similar whether the digital euro would have legal tender status or not.
- As concerns the level of additional costs:
 - This would very much depend on the present legal tender status and the interpretation of what that means for the acceptance of payments in different Member States. These are quite different between Member States.
 - It would also depend on whether merchants already accept electronic payments or not. Merchants presently not accepting electronic payments would have different costs to those who already do. The exact cost will depend on design choices of a digital euro.
 - Overall, the assumption is that with a legal tender status of a digital euro, more merchants would be impacted, therefore costs would be higher in case of a legal tender status. If a digital euro is granted legal tender status, costs for small merchants should be minimised, e.g. possibility to accept payments using a smartphone application.

Q20. 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
<i>One off costs related to (new) POS terminals for accepting payments in digital euro :</i>	n/a	n/a
<i>One-off costs related to software:</i>	n/a	n/a
<i>Annual cost for maintenance, licences etc.</i>	n/a	n/a
<i>Others please specify</i>	n/a	n/a

Merchants already accepting electronic payments: It is not possible to make a cost estimation without knowing how the technical solutions will exactly look like.

Merchants not yet accepting electronic payments: Costs would be similar as standard electronic payments.

Q21. 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

Token-based bearer digital euro could have higher investments, at least for merchants without digital payment solutions. But in the long term the running costs of a token-based digital euro would have more advantages as substitute in clearing and settlement.

Depending on the integration of an account-based digital euro with the current payment infrastructure, e.g. overflow features the cost would be higher than a bearer-based wallet.

Q22. 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
						<i>know/not applicable</i>
<i>Possible savings on the transaction costs of digital euro payments</i>				X		
<i>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</i>					X	
<i>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)</i>					X	
<i>Others (Please specify)</i>					X	

- The economic costs of the implementation of an entire new acceptance infrastructure might be prohibitive for all market players involved, not least for merchants. Enabling synergies with other digital means of payments might alleviate this problem. However, the digital euro would have to yield more significant benefits beyond the pure payments function in order to make a sound economic outcome more likely.
- New devices: In some countries, many merchants have already invested in POS to support NFC capabilities.

Q23. 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*

The development and provision of customer-friendly, reliable and secure payment solutions requires significant investments. Market players need a reasonable incentive in the form of possibilities to refinance these investments. In the end, market-based mechanisms will yield better results than a legislative price restriction which leads to adverse incentive structures and to impediments for innovations.



The business model related to the introduction of the digital euro should be market driven, transparent and pricing of these services should be competitive. A cap for migration cost would lead to market imperfections.

Member States could consider subsidies for the transition to digital euro acceptance by merchants.

Q24. 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
<i>Fees on digital euro payments should be based on real costs and a reasonable profit</i>				X		
<i>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</i>				X		
<i>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</i>				X		
<i>Fees calculated in another way (please specify)</i>					X	

Our understanding is that question 25 is about fees payable to intermediaries, not to central banks.

- It is not the role of public institutions to build a payment scheme and decide on fees (business model). The development and provision of customer-friendly, reliable and secure payment solutions requires significant investments. Market players need a reasonable incentive in the form of possibilities to refinance these investments. In the end, market-based mechanisms will yield better results than a legislative price restriction which leads to adverse incentive structures and to impediments for innovations.
- Fees on a digital euro payment should be based on the volume or value of transaction. Especially for low volume transactions a cost-based approach could lead to lower acceptance. Therefore, mid and higher volumes should be priced by real cost, while lower volumes should be priced by volume or value of transaction.
- Multilateral Interchange Fees: interchange fee is a good/well established possibility to



charge the merchant. The interchange fee should be lower than in Cards-Business so that the digital euro is attractive for merchants.

- Central development of digital euro pure payment functions and wallets delivered opensource or as a JDK (Java Development Kit) to the market could lower development costs overall without excluding the private sector from creating market driven additional features (e.g. cash management, cash register management, etc.) based on central (by ECB) paid resources.
- Fees calculated in another way: this would depend on design of a digital euro, who takes what role in the ecosystem and on the services provided by intermediaries.

Q25. Should there be a prohibition on surcharges on payments with digital euro?

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

Surcharge on payments with digital euro would be prohibitive and discriminatory. Following the principle laid down in PSD2, it has been shown that a surcharging prohibition might act as a catalyst for the acceptance of digital means of payment and prevent discrimination of certain types of payment.

Q26. 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):

Statement	Yes	No	No opinion
<i>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.</i>	X		
<i>Legislative action at EU level is needed to enhance legal certainty and enshrine the legal tender status of euro cash in secondary law.</i>			X

We consider that section 3.2 on the legal tender status of euro cash should not be part of the present public consultation which is about a digital euro.

Situation across Member States with regard to cash acceptance is different and current practices should continue.



Q27. 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'?

- Yes
- No**
- no opinion

Q28. Which of the following exceptions should be defined?

Exception	Yes	No	No opinion
<i>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);</i>		X	
<i>If refusal is for security reasons;</i>		X	
<i>If the value of the banknote tendered is disproportionate compared to the value of the amount to be settled;</i>		X	
<i>If a retailer has no change available;</i>		X	
<i>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;</i>		X	
<i>Any other exception</i>			X

Situation across Member States with regard to cash acceptance is different and current practices should continue.

Q29. 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



Q30. Should there be a provision for administrative sanctions for cash non-acceptance?

- Yes
- No**
- No opinion

Q31. Should the legislative proposal confirm the prohibition on surcharges on payments with euro banknotes and coins?

- Yes
- No**
- No opinion

Q32. 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

Q33. What do you think the impacts of a digital euro would be on the business of providers of payment services and crypto-asset services?

	<i>Positive impacts/opportunities</i>	<i>Negative impacts/challenges</i>
<i>Credit institutions</i>	<ul style="list-style-type: none">- Relief for institutes in negative interest rate phases through the outflow of deposits to retail CBDC (especially in a tiered model, less with a low limit per citizen)- Reduction of cash	<ul style="list-style-type: none">- Risk of disintermediation due to lack of limitation Retail CBDC can lead to increased refinancing costs and could be dangerous for economic stability, especially in a crisis.



	handling costs - Under certain circumstances, income could arise out of retail CDBC coupled institution-specific value-added services - Stability of the payment system is secured against increasing concentration of payment transactions at a few, very large companies	- Eurosystem focuses on use in retail (PoS/e-commerce) of retail CDBC: product that competes with existing banking payment systems, commercial role unclear, if Digital Euro is more than a form of money / raw material - Cost risk for credit institutions due to currently unclear allocation of implementation costs - Digital bank run risk
<i>Other payment services providers</i>	n/a	n/a
<i>Crypto-asset services providers</i>	n/a	n/a

Q34. 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 aspects 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
<i>For financial stability purposes (e.g. to prevent bank runs in crisis situations)</i>					X	
<i>To prevent that the digital euro structurally disintermediates credit institutions (e.g. large conversion of bank deposits to digital euro)</i>					X	



<i>Other (please specify)</i>					X	
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Bank runs in crisis situations: The possibility to hold central bank money in the form of digital euros would lead to the fact that depositors will 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 banks, as many cooperative banks are predominantly funded by deposits and these deposits will decrease when the holdings of digital euro increase. In the worst case institutions could face challenges to fulfil their minimum liquidity requirements for both the LCR (Liquidity Coverage ratio) and the NFSR (Net Stable Funding Ratio). However, this depends on the specific implementation design. To counter this risk, there needs to be a fixed limit set by law on the amount of a digital euro to be held, as a bank run in times of crisis cannot be prevented simply through controls on interest rates.

Structural disintermediation: Should the digital euro be introduced without a limit on the amount to be held in order to limit the store of value function, there could be a large-scale conversion of bank deposits into digital euro. This could increase the funding costs for banks and the economy. To exchange bank deposits into digital euro, the commercial banks need 100% central bank money (i.e. the digital euro). Therefore, the banks would need additional central bank liquidity, which can only come from the central bank for the entire banking system. With an unchanged development of the credit volume, the commercial banks (in sum) therefore have a higher need for central bank money if bank deposits are transferred (on a large scale) into digital euro.

For the banking system, the higher demand for central bank money can be met by additional central bank liquidity from the ECB. There are two possibilities:

- The central bank could issue additional tender, but the previous collateral framework still applies. If demand for central bank liquidity increases, then banks would need more central bank-eligible collateral, making it more expensive (or scarce). Banks would have to pass on the higher cost of central bank liquidity to their customers when lending (higher borrowing costs) or lower credit supply.
- The central bank could adjust/expand the collateral framework (additional collateral with higher risk) or require lower haircuts to keep the price of central bank liquidity low.

It follows that either the cost of credit would rise, credit supply decreases or the central bank would have to adjust the collateral framework.

Interest/remuneration: Regarding remuneration (also due to the similarity between the digital euro and the non-digital euro) we are of the view that there should not be a specific remuneration rate applied to the digital euro. The remuneration for the digital euro should be zero as for cash. Should the ECB decide to apply a remuneration rate on digital euro holdings, the digital euro would become an instrument of monetary policy by steering the investment and savings behaviour of citizens and firms.

In particular a remuneration rate for digital euro holdings above zero could have detrimental effects on the banking sector and financial stability, as it would make the digital euro attractive as a store of wealth. Thus, from an investment perspective the



digital euro could become more attractive than commercial banks deposits (and also sovereign bonds), which could lead to large shifts from commercial banks deposits to digital euro holdings with all the negative consequences that have been described above. On the other hand, it would be easier for the ECB to pass along zero interest rates or negative interest rates via digital euro holdings, which citizens and firms would (probably) accept due to the higher safety of central bank liabilities.

Other: CBDC will 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? 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)?

Q35. 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
<i>Person-to-Person payments</i>		X				
<i>Person-to-Business payments</i>		X				
<i>Business-to-Business payments</i>						X
<i>Machine-to-Machine payments</i>						X
<i>Other (please specify)</i>						X

- With a fixed limit, amounts above this limit could no longer be paid or technical solutions would have to be created so that the store of value function is limited, but the transaction amount is still not limited at the same time (e.g. connected with a commercial bank money account and automatic conversion between commercial bank money and digital euro during the payment process).
- The needs of the industrial sectors for B2B and M2M payments should not be addressed by a digital euro. Solutions for this should be left to the financial sector and other supervised intermediaries by enabling tokenized commercial bank money tokens or other solutions like stablecoins based on Euro.



Q36. 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
<i>Volume (value) of retail deposits</i>	X					
<i>Volume (value) of corporate deposits</i>	X					
<i>Liquidity / bank run risk</i>					X	
<i>Volume (value) of new credit provision</i>		X				
<i>Revenue from payment services</i>		X				
<i>Net interest revenue</i>		X				
<i>Ability to perform anti money laundering (AML) and other compliance obligations</i>			X			
<i>Costs due to operational risk in retail payments</i>				X		
<i>Other (please specify)</i>	X					

- Should the digital euro be introduced without a limit on the amount to be held, there could be a large-scale conversion of bank deposits into digital euro. The extent to which bank deposits would be replaced by the digital euro can hardly be calculated in advance. Important influencing factors: current level of market interest rate and thus the interest rate differential to the (non-interest-bearing) digital euro, assessment 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. 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.
- A digital euro without a limit would be an attractive substitute for bank deposits since it would be a liability of the central bank. Therefore, in times of crisis there could be an abrupt and extensive outflow of bank deposits, the liquidity / bank run risk would increase.
- Net interest revenue would tend to decrease if the refinancing costs were to rise due to the outflow of bank deposits.



- AML/CFT: ability to perform AML functions is dependent on a possible privacy threshold for certain transactions, and the access to transaction information by intermediaries.
- Other: depending on central bank asset policies (see Q34), central banks could end up directly competing with banks in financial markets and lending. It would also mean that some institution should supervise the central bank and, second, that it is not logical that the central bank supervises its competitors. We would go back to the 19th century, before the invention of modern central banks.

Q37. 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?

- Stablecoins issued by non-banks potentially have similar effects on credit institutions, from a funding and liquidity management perspective, as CBDC. But with one important exception: a non-bank stablecoin would be without a hard limit, which creates additional risks. If banks would issue stablecoins themselves however, this would have a smaller impact on their funding. Though depending on regulatory restrictions on stablecoin investible assets, bank stablecoin issuance may lead to ringfenced liabilities, which also has a material impact on liquidity management and other bank treasury functions.
- Disintermediation: Risk that BigTechs or decentralised solutions introduce a stablecoin and thereby weaken the importance of the euro. This could also disintermediate banks. If a single highly successful stablecoin will be offered in the EU by a tech player, this concept will be in sharp contrast to that of account-based banking. Risk that other foreign CBDC gain significant share in Europe (e.g. like dollarization in emerging economies) and thereby disintermediate banks.
- Interoperability: Although each individual bank would 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 reasonable solution to solve the interoperability issue is a common standard between banks and a regulatory framework allowing banks to issue tokenized commercial bank money. This would lead to an interoperable network of commercial bank money token, which could be positive for the innovativeness of the Eurozone with all the different needs of different sectors and could raise the efficiency of our 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. But a run may also be 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 stablecoins reserves. It may be increased by the fact that, unlike official local currencies, there is no obligation to accept the stablecoin.



- **Repayment risk:** 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, at current interest rate level the issuing cost are high. A legal framework giving bank issued tokenized money the same legal classification as today's commercial bank money / deposits would solve this.
- **Risk of losing sovereignty:** European digital money as well as a payment scheme managed by Europeans would ensure the sovereignty of Europe. But it is fundamental not only to issue a digital euro in a "one-size-fits-it-all" manner, which would involve additional risks. EU monetary sovereignty can be strengthened by a combination of a wholesale digital euro, retail CBDC, tokenized commercial bank money.

Q38. 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
<i>Volume (value) of funds on payment accounts hosted by payment institutions, e-money institutions or crypto-asset service providers</i>			X			
<i>Volume (value) of payments initiated by payment service providers or crypto-asset service providers from third party accounts</i>		X				
<i>Direct revenue from payment or crypto-asset services</i>			X			
<i>Revenues from investing the balance of payment or crypto-asset accounts</i>			X			
<i>Revenues from data management</i>			X			
<i>Ability to perform AML and other compliance obligations</i>				X		



<i>Costs due to operational risk in retail payments and crypto-asset services</i>				X		
<i>Other (please specify)</i>						X

Q39. 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
<i>Experience in on-boarding of customers</i>					X	
<i>Experience in Know Your Customer (KYC) and AML checks</i>					X	
<i>Efficient transaction verification and execution</i>				X		
<i>Experience in customer management</i>					X	
<i>Developing additional services using the digital euro</i>					X	
<i>Existing IT system for customer, front and back office services that could be adapted to the digital euro</i>					X	
<i>Other (please specify)</i>					X	

The advantage to citizens of involving banks in the process would be that they could have their digital euros transferred directly to 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, know-your-customer (KYC) processes and anti-money laundering and combating financing terrorism, could continue to be used without the Eurosystem having to set up new infrastructures and processes. At the same time, banks would be able to provide new and innovative banking services based on the digital euro.

Efficient transaction verification and execution: The role of financial intermediaries here will depend on design of a digital euro, i.e. account-based versus bearer (token-based)



digital euro. Compared to conventional account-based verification and execution, a token-based digital euro would distribute third party validation of transactions to distributed network/ledger nodes, where licensed financial intermediaries can play a vital role – potentially only licensed financial intermediaries could constitute said distributed network/ledger.

Q40. 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.)²⁰

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
<i>One-off expenses</i>					X	
<i>Annual expenses</i>				X		
<i>Others, Please specify</i>					X	

Depending on the commercial concept of the digital euro and the degree of freedom allowed in charging for basic services and additional value-adding services, additional opportunity costs could arise for PSPs if the usage of payment products with market prices is being reduced. Furthermore, costs are depending on the design choices. As there is no clarity on the major design choices and underlying features of the digital euro no accurate cost estimates can be given.

Q41. Using the digital euro, what additional services could your financial institution develop for your customers?

Intermediaries should be allowed to offer own design choices in developing wallets, solutions, and value-added services around the digital euro, thereby promoting a market oriented, resilient and diverse ecosystem. Intermediaries should be enabled to implement innovative functionality into their proprietary wallet solutions, to foster the acceptance of a digital euro. Functionalities could for example include:

- Programmable payments, e.g. programmability for a time-based or trigger-based payment based on non-programmable and universally accepted digital euro.
- Innovative, fast and reliable AML/KYC processes, e.g. by building upon a European digital identity solution.
- Enhance existing P2P and Payment solutions substituting todays more expensive



clearing and settlement-mechanisms thru a Digital Euro (only in case of bearer-token-based) Token, whose transfer would be cheaper for intermediaries and makes payment faster and cheaper for merchants and at the end also citizens.

Q42. 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
<i>Account-based digital euro, available online</i>			X			
<i>Bearer-based digital euro, available online</i>			X			
<i>Bearer-based digital euro, available offline</i>				X		

Compliance costs not only related to bearer (on-/offline) or account based, also the choice for or against limitation and the limit has an important impact on compliance costs.

Furthermore, it needs to be delimited between initial costs and running costs. Account-based (and therefore bearer online too) would have same costs as today, as long as the citizens are well identified, and this identification could be overtaken for the digital euro account.

The bearer based digital euro offline available may have significant more initial costs (depends on a well-made digital identity), but with a clear (low) upper limit, only the initial KYC for the registration of the wallet would be important, could be overtaken by the actual KYC too.

Without upper limitation (e.g. in a tiering model), the compliance costs could be permanent much higher as today.

Compliance costs could increase to verify a transaction after the fact (especially in the case of bearer-denominated digital euros available offline). A cost increase could also occur if stricter monitoring of the digital euro has to be observed during the introductory phase of the digital euro.

Q43. 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?

- This will depend on many factors, e.g. the degree of planned anonymity / pseudonymity when paying with the digital euro, the choice of limitation/tiering and



the design.

- Account-based digital euro: No additional challenges if intermediaries have the same information about a payment as today. If intermediaries have less information, it could be more challenging for intermediaries if they have to comply with the same AML/CFT rules.
- Bearer-based digital euro: a challenge would be to identify the counterparties and combine that with traditional account-based approaches.
- Offline plus programmability: to ensure that these functionalities provide the same level of information and timeliness as traditional online approaches.
- The digital euro should not aim for transaction data being accessible only to the ECB – 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. Thus, transaction data and users’ profiling data should be transparent to intermediary for security, operational and fraud prevention reasons.

Q44. 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?

It is obvious that the possibility to conduct transfers offline might pose a risk in terms of money laundering and sanctions violations since it may be not possible to immediately check a wallet against compliance lists and block them if necessary. This risk can be effectively reduced by limiting the holding, the time or number of transactions until the wallet goes "online" again in order to perform the checks necessary. This is regardless of the underlying architecture, i.e. account-based or bearer instrument. However, several low value offline transactions could be possibly aggregated by criminals to circumvent KYC/ compliance checks, which could be prevented by KYC requirements and limitations on payee site-wallet.

Given the digital nature of the digital euro these challenges will increase given its more frictionless nature, e.g. cross-border transactions.

Q45. 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	Low-value offline digital euro	Low-value offline digital euro	Don't know/not applicable



	<i>transactions less risky</i>	<i>transactions equally risky</i>	<i>transactions more risky</i>	
<i>Digital euro online payments</i>		X		
<i>Cash payments</i>		X		
<i>Online payments in commercial bank money</i>			X	

It should be kept in mind, that given the unclarity around the digital euro design choices, it is very hard to assess at this point in time which data points will be available to carry out necessary AML and CFT checks.

See also answer to Q44.

Q46. Which features could appropriately enhance the privacy and data protection of the digital euro users? Note that these features are without 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	<i>Don't know/not applicable</i>
<i>Ability to mask the identity of the payer or the payee to each other ('peer-to-peer pseudonymity')</i>					X	
<i>Ability to mask the identity of the payer or the payee to the other party's intermediary ('intermediary-to-intermediary pseudonymity')</i>				X		
<i>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</i>					X	



<i>Ability to completely hide the identity of the payer and payee for low-value offline transactions</i>			X			
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A challenge will be to balance the clear need/goal for the financial sector to maintain transactions traceability and for intermediaries have sufficient information available to perform AML/CTF and Sanction & Embargo checks and on the other side, the pressure to protect privacy.

Generally speaking, we consider that GDPR as a horizontal regulation that can be applied to different situations such as the digital euro. For instance, we consider that the different legal basis 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, comply with a regulation, etc.). 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).

Pseudonymity could be an innovative feature of a digital euro as it could guarantee the privacy of payment users. However, in an account-to-account model, pseudonymity could fuel the distrust of payment users (same analysis for offline transactions) who need to know with whom they are making a transaction, in an environment in which fraud and social engineering is at an all-time high. PSPs also need an appropriate degree of transparency to carry out their security and AML duties.

Current means of payments always record the name of the parties to the transactions and the Euro Retail Payments Board (ERPB) set up a working group on transparency for retail payment end user with the aim to make it easier for consumers to identify, from their payment account statement – whether this be in paper or electronic form – to whom, where and when a payment was made. Consequently, it appears that pseudonymity would go against all the work that has been undertaken to enhance the transparency and strengthen consumer confidence in retail digital payments. It may also increase the risk of fraudsters migrating to the digital euro to benefit from pseudonymity, which would considerably undermine the credibility of the digital euro as a safe and secure means of payment, and consequently harm its chances of success.

Regarding central banks, we believe that the distribution of the digital euro should be carried out by the private sector, as already stated in previous answers. Consequently, central banks should not handle consumer data as it is not included in their scope of action.

Q47. 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?

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
<i>Fight against money laundering, organised crime / terrorism</i>					X	
<i>Enforcement of tax rules</i>					X	
<i>Payments settlement purposes</i>				X		
<i>Management of operational and security risks</i>				X		
<i>Enforcement of potential holding limits</i>				X		
<i>Additional innovative online services and functionalities</i>				X		
<i>Other, please specify</i>						X

As stated under question 49, user opt-in should be used for additional innovative online services by intermediaries to enable processing of personal user data.

With regard to security and liability a number of issues needs to be clarified:

- In case of a bug or cyber-attack against the digital euro infrastructure, would the use of the digital euro be blocked at European level until the issues are addressed?
- In the event of a bug or fraud, who would be responsible and therefore provide reimbursement?
- What precautions would be put in place to prevent digital euro counterfeiting? What would happen in case of counterfeiting? Is the risk of counterfeiting higher with offline transactions?

Q48. Should the central bank be able to access personal data for the purposes listed below?

	Yes	No	Don't know/not applicable
<i>Payments settlement purposes</i>		X	



<i>Operational resilience/security risks assessment and mitigation purposes</i>		X	
<i>AML/CFT</i>		X	
<i>Fraud</i>		X	
<i>Other, please specify</i>			X

Access and possible storage of personal data at a pan-European level by one central organization creates big risks of data theft and leakage. Additionally, the digital euro should be as anonymous or confidential mean of payment as possible, giving the public a high trust in its confidentiality. Therefore, as far as possible, data access of the central bank should be limited to a bare minimum. Intermediaries can already exercise a lot of operational resilience, security, AML/CFT and fraud monitoring tasks, given their huge and long-running experiences in these fields.

Q49. 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*

For innovation purposes users should have control over their payment data including data sharing with third parties, in line with PSD2. A user opt-in for better processing of their user data leveraging innovate AI abilities is important to make many value-added services by intermediaries possible and accessible in the first place. This will ultimately make the digital euro much more attractive and support the uptake of the digital euro.

Q50. 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	<i>Don't know/not applicable</i>
<i>Euro area (EA) residents and intra EA payments</i>					X	



<i>Non-resident visitors to the EA (tourism dimension)</i>					X	
<i>Selected non-EA residents for trade purposes with third countries</i>				X		
<i>All international retail transactions with third countries without limits on residency and geography of transactions (trade dimension)</i>		X				
<i>Other Please specify</i>						X

- Increasing the international role of the euro would contribute to combatting dollarization and resulting US dominance on world economy and geopolitics.
- The availability of the digital euro wallet for transactions also outside of the Eurozone should be explored, taking into account both opportunities and risks in political and economic terms. The offering of digital euro wallets, also outside the Eurozone, should be only possible for (foreign) certified intermediaries vetted against strict regulatory rules.
- Non-resident visitors: if the digital euro is to function as digital cash, it should be available to tourists as well.
- Trading purposes: a wholesale-oriented digital currency suited for large value cross-currency payments would be much better suited than a retail focused digital euro. In this context, it would be appropriate to speed up the introduction of the wholesale digital euro and introduce it as soon as possible.
- Existing payment infrastructures too are different for retail versus wholesale payments. In our view, a single CBDC solution should not aim to address both dimensions at the same time – that would lead to a compromise solution that is worse than the current alternatives available.

Q51. 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	<i>Don't know/not applicable</i>
<i>Financial disintermediation</i>				X		



<i>Financial stability</i>				X		
<i>Monetary autonomy</i>				X		
<i>Capital movements</i>				X		
<i>Others Please specify</i>						X

While it is difficult to estimate potential demand for digital euro by EU citizens living outside of the euro area, the emergence of the above risks depends strongly on the design of the digital euro. If the digital euro were to be available without holding limits in the non-euro area Member States, this could also lead to disintermediation or increase the risk of a bank run in times of crisis and thus could lead to risks for financial stability in these countries.

Monetary autonomy in the Member States outside of the euro area could decrease through a digital euro if it were in high demand by the citizens in these states. The digital euro could then function as a kind of shadow currency (parallel currency). Here, too, the impact depends strongly on the design of the digital euro, i.e. its attractiveness compared to the respective national currency.

Tendentially, capital movements from the national currency into euro (i.e. digital euro) on which the country has no monetary autonomy. A sudden shift of capital could result in volatile exchange rates.

As already stated previously, the digital euro should have a low and strict holding limit set by law in order to avoid significant deposit outflows.

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