

ECB Public consultation on a digital euro - Deadline: 23:59 CET on 12 January 2021

Answers to the questions below will be submitted to the dedicated questionnaire at the following link:

<https://epsilon.escb.eu/limesurvey3/434111?lang=en>

User perspective questions

No.	Question	Answer
1	<p>How would you rank, in order of importance, the features that a digital euro should offer?</p> <ul style="list-style-type: none">a. I want to be able to use it throughout the euro area.b. I want my payments to remain a private matter.c. I want to be able to use it with my smartphone and at payment terminals.d. I want to be able to pay even when there is no internet or power connection.e. I want it to be easy to use.f. I want to use a digital euro without having to pay additional costs.g. I want it to take the form of a dedicated physical device.h. I want it to be a secure means of payment.i. I want my transactions to be completed instantaneously.	
1 sub-question	<p>Do you have any further comments about the ranking that you have indicated above?</p>	
2	<p>Do you envisage any challenges associated with a digital euro that would prevent you or others from using it? If so, what are they?</p>	
3	<p>What user features should be considered to ensure a digital euro is accessible for people of all ages, including those who do not have a bank account or have disabilities?</p> <p><i>For more information, please refer to Requirements 2 and 12 in the Eurosystem Report on a digital euro.</i></p>	
4	<p>There are two approaches we can take to make a digital euro work, one that requires intermediaries to process the payment and one that doesn't.</p> <p>If we design a digital euro that has no need for the central bank or an intermediary to be involved in the processing of every single payment, this</p>	

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	<p>means that using a digital euro would feel closer to cash payments, but in digital form – you would be able to use the digital euro even when not connected to the internet, and your privacy and personal data would be better protected.</p> <p>The other approach is to design a digital euro with intermediaries recording the transaction. This would work online and allow broader potential for additional services to be provided to citizens and businesses, creating innovation opportunities and possible synergies with existing services. For example, it could make it easier to integrate a digital euro into currently available electronic banking services and applications.</p> <p>From your perspective, which of the following do you find most appealing? (select one):</p> <ul style="list-style-type: none"> a. a digital euro focused on privacy and the protection of personal data, which can be used offline; b. a digital euro with broader potential for additional services, allowing innovative features and other benefits for citizens and businesses; c. a combination of both. <p><i>For more information, please refer to Sections 5.1.5 and 6.1 of the Eurosystem Report on a digital euro.</i></p>	
4 sub-question	Do you have any further comments regarding your answer to the question above?	

Financial, payment and technology professionals' perspective questions

No.	Question	Answer
5	What role do you see for banks, payment institutions and other commercial entities in providing a digital euro to end users?	<i>Please note that this response and all other responses to questions below represent the views of the EMA and its members as a whole, but may not represent the views of individual members.</i>

ECB Public consultation on a digital euro - Deadline: 23:59 CET on 12 January 2021

<p><i>For more information, please refer to Sections 5.1.1 and 6 of the Eurosystem Report on a digital euro.</i></p>	<p>The roll out of a digital euro is not unlike that of most new payment service products. It will involve technological aspects, operational, compliance, financial, as well as business and consumer proposition.</p> <p>The role of the private sector will depend on a number of decisions that will be made by the Eurosystem (“ES”), these relate to:</p> <ul style="list-style-type: none">- The intended relative roles of the parties,- The technology adopted, and the extent development or implementation required by the private sector to enable retail payments- The intended objective of the Digital Euro (“DE”), whether it is intended to substitute for a clearly defined sector of bank/e-money or a more broad or undefined one.- The product characteristics of the DE, and therefore the utility that can be made of it.- The extent of ES oversight of participant businesses and the additional resource that may require- The business benefits, revenue or opportunities that will be brought by the DE- Impact on existing products and services that PSPs have on offer and which may be disrupted by the DE <p>It is likely that the ES will wish to build a broad ecosystem to support the product offering, and more significantly to identify and offer solutions to specific payment needs. This is likely to include PSPs with existing relationship with consumers and business users, as well as application developers, technology vendors and support service providers.</p> <p>The opportunity for PSPs will however be driven by competing factors, such as the resource overhead, impact on existing business, development time needed, opportunity cost, competing products including other CBDCs and privately issued digital currencies.</p> <p>PSPs are likely to be keen to participate in the ecosystem, but are more likely to devote resources if they are involved in its evolution, and can see how it will sit amongst the existing product offerings. This will allow planning and development to be initiated and a more effective response. Early communication and dialogue with the industry regarding the design of the DE is paramount not least with a view to the potentially far-reaching medium- to long-term strategic implications.</p>
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<p>6</p>	<p>A digital euro may allow banks and other entities to offer additional services, on top of simple payments, which could benefit citizens and businesses.</p> <p>What services, functionalities or use cases do you think are feasible and should be considered when developing a digital euro?</p> <p><i>For more information, please refer to Section 6 of the Eurosystem Report on a digital euro.</i></p>	<p>The evolution of payment services and their acceptance by users over legacy payment products is predicated on increased utility. In order to overcome user inertia, the new payment product needs to be compelling enough to result in a change in behaviour.</p> <p>As central bank issued digital currency, this may already be an advantage, it is unlikely however to success if it offers a degraded user experience or utility compared to other payment products, even if they do not have a zero risk label.</p> <p>It is for the ES to consider the unique areas of use that a DE is likely to be most successful, or the attributes, in addition central bank issuance, that would result in it performing better than other alternative payment products.</p> <p>One relatively straight forward proposition is to see the DE as a universal payment instrument, and build in acceptance for use for payment for basic services such as utilities, transport and food shopping. It can immediately act as means to facilitate financial inclusion on the one hand, and provide a reliable payment method for the overall population on the other.</p> <p>Another feature which is likely to be a focus for discussion will be the ability to design smart contracting attributes, so that it can be used for executing automated payments by businesses and consumers alike.</p> <p>Another may be focussing on international or global acceptance and utility.</p>
<p>7</p>	<p>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.</p>	<p>The answer to this question is dependent on the nature of the technology developed for the DE. If the DE value always sits within the systems of the ES, then the role of intermediaries is likely to be one of distribution, or technology development, and it is not necessarily the case that prudential regulation would be required. Conduct of business regulations such as that afforded to crypto asset service providers in the proposed MiCA Regulation may also be appropriate, which could include risk management and resilience provisions. Where intermediation does not involve provision of any IT infrastructure or holding of funds, the merits of regulation can be re-examined.</p>

ECB Public consultation on a digital euro - Deadline: 23:59 CET on 12 January 2021

		<p>If intermediaries have a role to play in securing the ES, then more significant oversight may be necessary, or type approval of the IT infrastructure etc.</p> <p>We would be happy to address this question in more detail once the architecture has been developed.</p>
8	<p>Which solutions are best suited to avoiding counterfeiting and technical mistakes, 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?</p> <p><i>For more information, please refer to Section 6.3 of the Eurosystem Report on a digital euro.</i></p>	<p>This is the biggest technical challenge that we can see, and the response is entirely dependent on the technical implementation. It is challenging to address this question in abstract.</p>
9	<p>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)?</p> <p><i>For more information, please refer to Requirement 2 in the Eurosystem Report on a digital euro.</i></p>	<p>It is difficult to see how a centralised account infrastructure could easily deliver on these attributes, but it may have a role in the overall architecture. It is more likely that a distributed architecture may better deliver on offline use, privacy and ease of access for vulnerable groups. We would be happy to comment on any specific proposals that may be in preparations and welcome a series of similar public or bilateral consultations.</p>
10	<p>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?</p> <p><i>For more information, please refer to Section 5.1.2 of the Eurosystem Report on a digital euro.</i></p>	<p>It is important that the DE does not lead to an erosion of citizens' right to transact in private. There will always be a need to balance law enforcement and crime prevention against the right to privacy, but this must not be set entirely to one side.</p> <p>Indeed a balanced approach to privacy may help distinguish the DE from other CBDCs, and encourage its adoption.</p>

ECB Public consultation on a digital euro - Deadline: 23:59 CET on 12 January 2021

<p>11</p>	<p>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.</p> <p>What is your assessment of these and other alternatives from an economic perspective?</p> <p>(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.)</p> <p><i>For more information, please refer to Sections 3, 5.1.3 and 5.1.8 of the Eurosystem Report on a digital euro.</i></p>	<p>As set out at paragraph 5.1.3 of the report, the attractiveness of a non interest bearing DE to corporates will depend on the prevailing interest rates and consequent cost of holding alternative instruments.</p> <p>A tiered approach to holdings could be a means of addressing this problem, allowing retail consumers to hold modest amounts without penalty. The limits and the circumstances under which users would be able to make larger payments would be difficult to ascertain, and may be different for different users and for different member states. This is likely to be a challenging approach.</p> <p>Providing for interest payments or charges does however suggest that such a facility could be an attribute of privately issued crypto currencies that wish to adopt such features. This would be in keeping with a level playing field, and the wish of the ES not to discourage or crowd out private solutions, as set out as the fourth principle on page 8 of the report.</p> <p>This is currently excluded under the MICA proposal. Whilst this is a matter for the European Commission and the legislator, it is mentioned here as the outcome is relevant in this context.</p>
<p>12</p>	<p>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?</p> <p><i>For more information, please refer to Section 5.1.8 of the Eurosystem Report on a digital euro.</i></p>	<p>It is not clear how the tiered system is likely to be structured or where the limits are likely to lie. This would inform the response.</p>
<p>13</p>	<p>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?</p>	<p>The question suggests the private bank account would be linked to the DE instrument, in turn that the identity of each user is known, and also that the amount held by users would be tracked or overseen. There are privacy implications to this that merit a full discussion, and which go beyond the need to deal with excessive holdings.</p> <p>It would be better, if technically possible to simply treat the different amounts in bands, charging or paying interest to different bands held.</p>

ECB Public consultation on a digital euro - Deadline: 23:59 CET on 12 January 2021

	<p><i>For more information, please refer to Section 5.1.3 of the Eurosystem Report on a digital euro.</i></p>	
14	<p>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)?</p> <p>What potential challenges need to be considered in the design of the technology and standards for the digital euro?</p> <p><i>For more information, please refer to Section 6.2 of the Eurosystem Report on a digital euro.</i></p>	<p>This will be entirely dependent on the technical solutions adopted.</p> <p>One possibility may be to regard the DE as a currency in the same way as e-money wallets or bank accounts treat different currencies. This would be predicated on the DE being able to be expressed as units within the systems of multiple private entities, and this will have a risk implication.</p> <p>Another is to allow private systems to initiate transactions within the ES DE system, in an analogous way to PIS providers initiating transactions with ASPSPs. This has the advantage of the DE always residing on the ES's own systems, decreasing the risk of counterfeit. This does however have other limiting consequences such as offline payments and bearer transactions that are then, less feasible.</p>
15	<p>What features should the digital euro have to facilitate cross-currency payments?</p> <p><i>For more information, please refer to Scenario 6 in Section 2.2 of the Eurosystem Report on a digital euro.</i></p>	<p>In our view, the features that will be of most impact will relate to the manner in which the DE can be integrated in commercial transactions,</p>
16	<p>Should the use of the digital euro outside the euro area be limited and, if so, how?</p> <p><i>For more information, please refer to Requirement 13 in Section 3 of the Eurosystem Report on a digital euro.</i></p>	<p>This is essentially a political question, and in our view a broader use of the currency is likely to better address concerns over having an EU based resilient payments infrastructure. The competing CBDC products are likely to have global coverage, or at least be capable of global use. If the DE is to compete in such circumstances, then similar utility would be a prerequisite.</p>
17	<p>Which software and hardware solutions (e.g. mobile phones, computers, smartcards, wearables) could be adapted for a digital euro?</p> <p><i>For more information, please refer to Section 6.2 of the Eurosystem Report on a digital euro.</i></p>	<p>This is dependent on the technology that is deployed; but in most cases most technologies will provide for interfaces that can be accessed through all the devices mentioned.</p>

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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?	<p>Our association is willing to participate in the project at all stages, including:</p> <ul style="list-style-type: none">- Ongoing development of the product proposition to better understand its objectives- Identifying the attributes of the product and the characteristics or properties that would enable it to deliver on its objectives- Understanding the roles of the different parties- Developing views on technologies and the relative advantages of each- Understand the impact on the current payments ecosystem and maximising benefits whilst minimising disruption- Ensuring a level playing field for all actors which the DE system and between the system and other products and services- Contributing to a governance process for the project if this is required- Understanding the demands of a ES scheme, and developing the principles that would underpin this- Developing a view on privacy and the manner in which this will be implemented, as well as balances to be struck for risk management and the combatting of financial crime.
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