POSITION PAPER

ESBG response to the European Commission targeted consultation on a digital euro

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ESBG Transparency Register ID 8765978796-80

June 2022

ESBG

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The European Savings and Retail Banking Group (ESBG) welcomes the opportunity to respond to the European Commission targeted consultation on a digital euro. As a general remark, ESBG and its members believe Europe is at the forefront of innovation for retail payments. Banks and other Payment Service Providers (PSPs) already provide European citizens with an efficient and secure payment system. Over the time, full accessibility has been provided both in terms of physical access and financial inclusion. Commercial solutions already exist and meet user's needs in all use cases – modifying them is not only expensive but also inefficient, without a clear added value for the customer. From this point of view, ESBG and its members believe it should be further assessed what gaps could be filled by a digital euro and it should be analysed whether current payments solutions could not be simply adjusted to achieve said goals.

As another general remark, citizens are not aware of the difference between central bank money and commercial bank money. Therefore, they do not appreciate the different level of risk inherent in the two forms of money. ESBG and its members consider there are also risks associated with overemphasizing the safety of the digital euro, as this may lead to a decrease in the confidence in the financial sector among the general public. It should be noted that new regulations implemented after the great financial crisis of 2008 have significantly increased the resilience in the banking sector by ensuring that banks always have enough liquidity and capital reserves. Additionally, in the EU deposits are protected up to €100.000 thanks to the Deposit Guarantee Scheme (DSG) Directive and the Bank Recovery and Resolution Directive (BRRD) ensures that banks and authorities have proper crisis management plans. After all, despite Central Bank Digital Currencies (CBDCs) being central bank money in a digital form, they would still be subject to risks, such as fraud, theft, and loss – just like cash stored in a physical wallet. Moreover, we believe a digital euro should comply with the Revised Payment Services Directive (PSD2), the Payment Account Directive (PAD) and all the Anti-Money Laundering (AML) regulations, as the same rules must apply to all digital payment methods. As such, the digital euro should not be more or less "private" in the process of payment than other means of payment.

To ensure financial stability and avoid disintermediation, ESBG and its members believe there must be mechanisms in place that ensure the European Central Bank (ECB) can manage the quantity of digital euro in circulation used for transactions. A digital euro must be designed as an instrument for retail payments only, thus avoiding any possible use of it as an investment tool. Therefore, ESBG and its members are in favour of limits to individual holdings of digital euro – ideally in the form of €1,500 cap. More in general, said limit should take into consideration not only the cash needs for payment purposes in the euro area, but also the net

salary differences that exist between European countries. Without holding limits, EU citizens may convert all their deposits into digital euro in a matter of seconds, with catastrophic consequences on the banking system. A limit of €3,000 would imply a deposit flight up to 18% and a limit of €10,00 could mean the loss of 30% of deposits. This deposit outflow would not be manageable for most banking business model in the EU and would likely force banks to deleverage massively. The impact on balance sheet would be even more severe for savings and retail banks that have currently little to no access to market funding. The deposit outflow would not only impact liquidity, but also the volume of credit provision. The substitution of deposit accounts or the reduced use of bank deposit accounts by customers will inevitably lead to a reduced knowledge of customers and their solvency. This would impact client scoring and banks' risk management with ultimately more stringent lending conditions for some categories of lower-income customers or even a risk of eviction of these populations from bank lending.

For a digital euro to be successful, it must provide a user-friendly onboarding process and it should be secure, easy to access and use, and adapted to the general public. The main features of a digital euro should make it easy to understand and to distinguish it from other forms of euro payments. Some functionalities that 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). Besides, consumers will only use a digital euro if it is widely accepted for payments, and merchants will want to be reassured that enough consumers want to use it. In this respect, the acceptance of merchants will be key and will require an understanding for onboarding of existing Point Of Sale (POS) terminals via enhanced functionality, aiming for acceptance of all devices and wallets. However, any measure aimed at introducing mandatory acceptance – and any eventual exemption – should be carefully assessed and designed at EU level to not affect the level playing field between different means of payment and crowd-out currently existing solutions.

CONSULTATION QUESTIONS

1. USERS' NEEDS AND EXPECTATIONS

The digital euro would be available for retail payments. Like cash, it would be public money (a direct central bank liability), but in electronic/digital form. The overarching policy objective of digital euro is to preserve the role of public money in the digital age by providing a digital public money alongside cash. This would protect the role of public money as a stabilising anchor for the payments system even as cash use declines, preserve monetary sovereignty and support the competitive provision of financial services. The digital euro may bring benefits to the retail payment market, financial inclusion, the digitalisation of the economy, the EU's open strategic autonomy and the international role of the euro among others.

Achieving these objectives requires in turn that a digital euro is widely adopted and thus that it fulfils the needs and expectations of prospective users. It is therefore important to identify these.

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

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

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

Ability to program conditional payments			**X**			
Other benefits (please specify)						**Charge back possibilities (like cards)**

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

Most of the criteria above are not specific to the digital euro and already met in the provision of digital solutions by Payment Service Providers (PSPs). Regarding the choice between account-based and bearer-based instrument, it very much depends on privacy setting and the link with use of cash. With an account-based solution, it would be easier for PSPs to include a digital euro in their offer and thus to provide added value services. However, a bearer-based instrument would be similar to cash, possibly better meeting citizens' needs. Moreover, we believe a digital euro should comply with the PSD2, the Payment Account Directive (PAD) and all the Anti-Money Laundering (AML) regulations, as the same rules must apply to all digital payment methods. The digital euro should not be more or less "private" in the process of payment than other means of payments are, mostly because of regulatory requirements (KYC, AML/CFT, fight fraud capacity).

On a more general note, as also pointed out in the Kantar report recently published by the ECB, citizens are not aware of the difference between central bank money and commercial bank money. Therefore, they do not appreciate the different level of risk inherent in the two forms of money (especially when referring to counterparty risk), because this difference is close to zero when the latter is covered by deposit guarantee schemes. There are also risks associated with overemphasizing the safety of the digital euro, as this may lead to a decrease in the confidence in the financial sector among the general public. It should be noted that new regulations implemented after the great financial crisis (GFC) of 2008 have significantly increased the resilience in the banking sector by ensuring that banks always have enough liquidity and capital reserves. Additionally, in the EU deposits are protected up to €100.000 thanks to the Deposit Guarantee Scheme Directive and the Bank Recovery and Resolution Directive ensures that banks and authorities have proper crisis management plans. After all, despite CBDCs being central bank money in a digital form, they would still be subject to risks, such as fraud, theft, and loss. Just like cash stored in a physical wallet, citizens may lose their money if CBDCs are stored locally on a physical device that is lost or stolen. Moreover, forcing mandatory acceptance would be anti-competitive, as it would crowd out other digital means of payments.

Other benefits would include charge back possibilities.

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

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

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

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

For a digital euro to be successful, it must provide a user-friendly onboarding process and it should be secure, easy to access and use, and adapted to the general public. The main features of a digital euro should make it easy to understand and to use for all kind of customers. Besides, consumers will only use a digital euro if it is widely accepted for payments, and merchants will want to be reassured that enough consumers want to use it. In this respect, the acceptance of merchants will be key and will require an understanding for onboarding of existing POS terminals via enhanced functionality, aiming for acceptance of all devices and wallets. The business model of the digital euro should also include merchant/corporate acceptance of digital euro, as they will need to have their costs covered. As part of the digital euro framework, the Eurosystem should carefully determine how businesses would be able to receive payments in digital euro and to implement an efficient procedure for conversion into commercial bank money. Nevertheless, on the acquiring side, new features will have to be developed and it is not conceivable these new services be cost-free.

On the consumer side, it should be considered that the underlying technology of a digital euro will not matter to citizens. Rather, they will appreciate the intermediation of banks that they already trust. As the surveys have shown, privacy is another fundamental feature for citizens in the event of the issuance of a digital euro. Therefore, availabilities of flexible privacy settings that give them control over their data will be another attractive factor. Users of the digital

euro should be able to decide the data they want to share, when and with whom (always in compliance with AML/CFT measures and data protection regulation, following the model set forth by PSD2). Instant and free of charge payments will also be basic features for a digital euro to be attractive for consumers – and as a consequence, for merchants. For the success of a digital euro, it will be crucial to have a clear understanding of the features that would distinguish a digital euro from other forms of euro payments and that would make it attractive for both corporates and consumers (offline payments or programmability).

Offline capabilities might also be important to design a cash-like CBDC. Other benefits of a digital euro would include fraud control.

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

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

	1	2	3	4	5	Don't know/not applicable
Paying with / transferring digital euros to a (natural) person face-to-face				X		
Paying with/transferring digital euros to a (natural) person remotely			X			
Paying for goods or services at a point of sale (face-to-face)			X			
Paying for goods or services remotely (ecommerce)		X				
Machine to machine Payments (Industry 4.0, IoT)		X				
Paying in situations without connectivity – offline face to face payments				X		
Other situations (please specify)						X

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

On a general note, commercial solutions already exist and meet user's needs in all these use cases. These solutions are already efficient and secure and modifying them is not only expensive but also inefficient, without a clear added value for the customer. Therefore, it will be crucial to have a clear and easy understanding of the features that would distinguish a digital euro from other forms of euro payments and that would make it attractive for both corporates and consumers. From this point of view, we believe it should be further assessed

what gaps would be filled by a digital euro and it should be analysed whether current payments solutions could not be simply adjusted to achieve said goals. A digital euro should be built as a complement to cash and to existing means of payments. As a consequence, a digital euro should only focus on those use cases that have room for improvement in the EU in the current ecosystem, i.e., face-to-face payments (although only in some jurisdictions) and offline payments for low value transactions. However, it should be noted that offline capabilities can also be achieved via private solutions like EMVCo and we see few use cases where this feature is actually necessary. Switching to a digital euro for other use cases like in e-commerce journeys will require further incentives.

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

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

	1	2	3	4	5	Don't know/not applicable
Getting paid in physical shops, marketplaces, etc.			X			
Getting paid in e-commerce		X				
Paying invoices	X					
Trade finance	X					
Machine to Machine payments		X				
Paying in situations without connectivity – offline face to face payments				X		
Others (please specify)						X

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

As previously stated, the development of a digital euro should focus on those use cases that have room for improvement in the EU. Otherwise, their adoption will be costly and inefficient. The only real benefit of a digital euro from a merchant's perspective would be to reduce the costs associated with the handling of cash. Other use cases for POS and e-commerce usage would mostly replicate existing private payment instruments, and as such would not create extra benefits for merchants.

However, merchant/corporate acceptance will be crucial for the success of a digital euro 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).

Regarding machine-to-machine (M2M) payments the market is still evolving and is in an early phase. This development should be carefully monitored. It should also be considered that M2M payments can also be accommodated using existing payments methods, meaning that a CBDC is not a prerequisite for such payments.

Finally, a digital euro should not be used for large-value payments in trade finance, as it should be designed for retail payments only.

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

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

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

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

Europe is at the forefront of innovation for retail payments. Banks and other PSPs provide European citizens with an efficient and secure payment system. Over the time, full accessibility has been provided both in terms of physical access and financial inclusion. If issued, a digital euro must complement gaps in the existing electronic payments services provided by banks and a proper framework must be put in place to ensure that a digital euro does not take the role of the deposit account services.

A digital currency may bring benefits to financial inclusion and privacy; at the same time, it may help foster innovation and fight the threats to financial stability and sovereignty posed by global private initiatives. However, while a digital euro could serve several different policy goals, each objective would require specific design features. A one-size-fits-all approach will not work. Instead, policymakers will have to decide what goal to focus on and design a digital euro accordingly. The most fundamental goal for a digital euro would be to provide the general public with central bank money in a digitised economy. Considering that the share of unbanked in the EU is very low, the focus should be on ensuring a digital euro is easy to access and use for all. This may mean a simple, low-tech, possibly bearer-based wallet that supports both offline and online transactions.

Finally, we would like to point out that the strengthening of the EU's strategic autonomy and sovereignty in payments do not necessarily have to be solved with a digital euro. Instead, this could for example be achieved via instant payments schemes. In a public-private joint effort this could also enable pan-European payments, where the public is responsible for the infrastructure layer. Such a solution could potentially offer the same use cases/user experience and achieve some of the strategic goals of a CBDC, without leading to disintermediation and financial stability risks.

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

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

	1	2	3	4	5	Don't know/not applicable
Easy process of onboarding					X	
No need for bank account					X	
Easy payment process (initiating and authenticating a payment transaction)				X		
Accessible device for payments (e.g. chipcards)				X		

Enabling of offline, peer-to-peer transactions				**X**		
Other (please specify)						

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

Generally speaking, we agree these features support financial inclusion. However, legal provisions (e.g., PAD) are already in place to ensure not only citizens, but also asylum seekers and refugees are entitled to a basic payment account with all the related banking services. These provisions need to be balanced with other regulatory obligations, most importantly related to AML, CFT, and KYC obligations (for this reason, we would support a limit to the number and amount of transactions that can be performed offline, see also answer to Q44). Since these legal obligations shall apply to CBDCs as well, we expect little to no impact on financial inclusion, especially considering that bank accounts already provide customers with the same services of a possible digital euro. Even if a digital euro enabled P2P offline transactions, we consider this would not massively influence the adoption of digital currency within the un-banked population.

On a more general note, it should be taken into account that in several instances not having a bank account is a matter of choice rather than the consequence of the impossibility to open it. Therefore, the motivation of this group will be strong enough not to go for a digital euro “account” as well.

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

Over the past decades, the EU's retail payment market has significantly developed and the offering of payment solutions has broadened, with faster, safer and more secure payment solutions being offered to wider segments of the population. The access to payment accounts has also been facilitated by legislation granting the right to every citizens to a payment account with basic services. However, as stated in the Commission's Retail Payments Strategy, the market is still fragmented and is highly dependent on very few global players to provide payment solutions that work across border in the euro area, even though there are some new promising market initiatives. The digitalisation of the economy has also created new payment needs. Crypto-assets, stable coins and foreign CBDCs may also carve out a part in the EU's retail payment market. A digital Euro can have various design features. We would like to better understand how the digital euro could further improve pan-European payments, strengthen Europe's open strategic autonomy, improve competition and support the needs of the digital economy while encouraging private innovation.

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

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

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

	1	2	3	4	5	Don't know/not applicable
A new form of pan-European instant digital payment complementing the existing offer for point of sale (POS, face to face payments in e.g. shops) and e-commerce **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	
A digital means of payment offering programmable payment features			X			
Other (please specify)						X

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

Any measure aimed at introducing mandatory acceptance should be carefully assessed and designed in order not to affect the level playing field between different means of payment and to not crowd-out currently existing solutions. A universal acceptance would imply the mandatory set-up of an exchange and acceptance pan-European infrastructure, which would require high costs. Interoperability is an important feature in the digital edge indeed, but it does not have to be achieved with a digital euro. Setting standards for already existing solutions and the implementation of ongoing projects in the EU would be more effective.

It is true consumers will only use a digital euro if it is widely accepted for payments. However, as already pointed out in our answers to previous questions, it is difficult for us to see how a digital euro could complement that use cases without suffering high costs and inefficiency.

Offline payments could serve as a fall-back option. However, it should be noted that offline capabilities could be developed also on private payments solutions, supporting increased resilience in the European payment ecosystem.

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

	Positively affect	**Negatively affect**	**Does not affect**	**Don't know/not applicable**
Allowing for the distribution of the digital euro to take place through regulated financial intermediaries (Payment Service Providers)	X			
Offering another form of central bank money in the context of a declining use of cash for payments	X			
Existence of holding caps or interest and fees on large holdings to limit the	X			

store of value in the form of digital euros (for financial stability reasons)				
Using the digital euro acceptance network to foster pan-European private sector initiatives	**X**			
Other (please specify)				

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

A clear governance framework needs to be agreed upon to ensure that end-to-end payment solutions rely on supervised private institutions in the distribution and provision of user-facing services. We believe only commercial banks (or better, Account Servicing Payment Service Providers under PSD2) should be licensed to provide the services of opening an account or wallet of digital euro. In other words, only banks should distribute the digital euro as it happens with cash today. Moreover, banks already have all regulatory mechanisms in place (AML monitoring, KYC, CDD, customer relations, administrative management, etc.). It is also crucial to implement restrictions under a framework that ensures that the tools cannot be easily changed due to political pressure.

To ensure financial stability and credit entities intermediation, we believe there must be mechanisms in place that ensure the ECB can manage the quantity of digital euro in circulation used for transactions. A digital euro must be designed as an instrument for retail payments only, thus avoiding any possible use of it as an investment tool. This, in turn, would ensure financial stability. We are in favour of limits to individual holdings of digital euro. Said limits to holdings should take into consideration not only the cash needs for payment purposes in the euro area, but also the net salary differences that exist between European countries. In this respect, we suggest €1,500 as a maximum limit to individual holdings. We are also of the opinion that limit on individual transactions might be necessary, both at the transaction level and on a cumulative monthly or weekly basis.

Moreover, a cap to digital euro holding would prevent a sudden shift from commercial bank deposits to central bank money. Caps would also help banks in the negative interest rate environment. During 2020, we collected some data that can be useful to determine the amount of cash that citizens in the euro zone use monthly for transactional purposes though the average number of ATM withdrawals for each EU Country and the average value per ATM withdrawal. Based on the above, we have determined that every month, on average, each European citizen withdraws €271.93 in cash from ATMs (with a maximum of €483.15 in Austria and a minimum of €176.30 in France). This indicates that a cap of €1500 would serve its purpose with a good margin. We do not consider limits on holdings/transactions as hampering the uptake of a digital euro, as limits on individual transactions already exist in different member states for different payment methods, such as cash and instant payments. In addition, there are limits for pre-paid cards in terms of AML controls in the existing EU regulation.

Therefore, we believe those limits and changes in the regulation can be applicable to the digital euro without significantly impacting its acceptance or usage. In this regard, policy framework limiting the holding of digital euro should be robust and transparent, ensuring that it cannot be changed for example due to political pressure in a crisis situation.

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

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

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

	1	2	3	4	5	Don't know/not applicable
Possibility for programmable payment functionalities provided through the digital euro solution				**X**		
Possibility for integration with other payments solutions (independent of what technology they use)					**X**	
Integration with platforms relying on distributed ledger technology (DLT)/blockchain for smart contracts applications (beyond payments)			**X**			
Possibility for micro and stream payments		**X**				
Machine to Machine payments (Industry 4.0, internet of things (IoT))		**X**				
A digital euro that connects with the European Digital Identity Wallet ecosystem			**X**			
Other (please specify)						

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

All these possibilities are key to develop the EU's digital economy, but we would like to highlight that it is not necessary to issue a digital euro to achieve them. Moreover, it must be very carefully investigated if a digital euro should be interoperable with other DLT/blockchain solutions. If these solutions are properly regulated it might be relevant to consider, but there could be substantial risks (central bank reputational risk, AML/fraud risks) associated with interoperability with some of the already existing solutions.

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

Starting from the assumption that two of the main policy goals of the introduction of a digital euro would be (i) to preserve the role of public money in a digital economy, and (ii) to address emerging alternatives such as cryptoassets and foreign CBDCs, we believe a higher priority should be given to use cases where these new payment solutions could provide added value – such as programmability – rather than focus on use cases already covered by solutions provided by PSPs. As a starting point, a digital euro may be issued in a small scale to only enable P2P low-value transactions. Then it could be further investigated the option to offer additional features like the settlement of smart contracts/nano transactions in digital euro and how such use cases could be offered via public/private partnership or fully via commercial bank money. As stated above, these use cases are still in an early phase and it should be further investigated how this market will evolve, regulatory and legal uncertainty and whether it would be efficient or not for central banks to enter this market segment.

It should also be noted that as of today 90% of payment transactions are of domestic nature and as such are served by existing services. Therefore, one other possible attractive market would be that of cross border transactions.

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

In the Euro area, the euro banknotes have the status of legal tender as stipulated by the Treaty on the Functioning of the European Union. The status of legal tender of coins denominated in euro is laid down in Council Regulation No 974/98. The concept of legal tender of euro cash as interpreted by the CJEU implies: (i) a general obligation in principle of acceptance of cash by the payee (ii) at full face value (iii) for the settlement of the monetary debt by a payer.

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

Since a retail digital euro would be another form (digital, not physical) of central bank money, it could also be given legal tender status, as is the case for banknotes and coins. Legal tender status should ensure a wide acceptance of the digital euro. This would however have implications on its distribution and acceptance. In particular, legal tender status could imply that a payee cannot generally refuse a payment by a payer in digital euro and that the digital euro would have to be universally accessible.

The concept of legal tender is enshrined in Union law but not defined in detail. According to the ECJ, the status of legal tender implies that a means of payment having legal tender involves a default obligation to accept it at full face value in payments and a corresponding default right to pay with it, unless that obligation and right are restricted for reasons of public interest, or waived by contractual agreement. In principle, the status of legal tender does not preclude the parties from agreeing to use other means of payment or other currencies. If the concept of legal tender was defined in EU legislation, this would regulate legal tender in detail at Union level, and any exceptions could be specified.

This section seeks to address these issues and seeks to get your views as regards the potential impacts of the legal tender status in general and on your institution.

Possible introduction of legal tender for the digital euro

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

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

3

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

First of all, it has to be defined what is meant with legal tender. If legal tender would mean a compulsion to accept or use the digital euro, this could lead to a competition issue with private alternatives. On a general note, it should be highlighted that the consequences of legal tender may largely differ across Europe depending on national legislations. For instance, in some Member States (MS) a digital euro with the status of legal tender would imply that its acceptance will be mandatory for merchants. The attribution of the status of legal tender status must be carefully evaluated, since it may create an unlevel playing field between the digital euro and other digital payment means. Moreover, it should be further clarified what legal obligations would follow for both merchants and intermediaries. For instance, although cash is a legal tender, there are shops where it is not accepted, with little to no practical consequences. Consumers are already used to not be able to pay cash and they can expect that digital euro might not be accepted.

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

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

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

Including a definition of legal tender status for the digital euro may not be necessary in the introductory phase. However, it could foster adoption in the long-run, especially if the reduction of cash continues and any clarification on this issue is welcome. Different interpretations are detrimental for consumers and businesses.

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

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

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

The interconnection between the physical and digital euro would be bolstered by harmonisation. If the digital euro aims at replicating cash, their legal status must be as similar as possible.

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

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

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

As a preliminary observation, the question around exceptions can only be clearly answered once the design of the legal tender status becomes clearer. More in general, enough time for adapting terminals should be given to merchants. Moreover, we consider that in some cases, acceptance of digital payments cannot be expected from merchants (e.g., flee market, farm shop). Entry barriers nevertheless should be kept low in general, so that market demand will increase the digital euro acceptance of all merchants. In any case, the freedom of contract that exists today for citizens and businesses should remain unaffected. it should also be considered that some countries (e.g., in Austria) citizens are very demanding and vocal on civil rights. If a digital euro has legal tender status, people will demand merchants accept it as a means of payment. However, if the legislation is not clear, merchants may decide not to accept it.

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

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

Please explain.

Exemptions only at EU level, no additional exemptions at MS level. 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. Adoption greater in case of certainty of same facility/rules in all EU.

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

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

Please explain.

Administrative sanctions are not part of the current arrangement.

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

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

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

Legal tender status should not automatically imply mandatory acceptance, as it currently happens with coins and notes. However, we do not exclude that some categories of payees may be forced to accept payments in digital euro.

Estimation of costs

This section mainly aims at assessing the costs incurred by stakeholders should the digital euro receive legal tender. While costs would very much depend on the design and functionalities of a digital euro, we are looking at broad estimates and further explanation, including on cost drivers, which will inform Commission impact assessment.

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

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

Please explain your reasoning and provide quantitative evidence or estimates.

Although it would depend completely on the design options, the technological development and implementation of new payments methods requires huge costs, not only in terms of investments, but also in terms of human resources and time. As an example, the current domestic instant schemes have evolved over many years and the European payments card schemes has been fine-tuned over several decades. Even if current infrastructure is flexible enough to adapt to technological changes, it has never been "tested" for digital currencies, thus requiring costly updates. Moreover, we consider that the new acceptance model will have to coexist with the current ones. So overall the acceptance costs are not expected to decrease.

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

	With legal tender status	**Without legal tender status**
Type of additional costs	New POS terminals or mandatory upgrade of POS terminals for all the merchants (device, software or app-based); Marketing; Training.	Upgrade only for merchants who accept digital euro

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

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

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

Since the answer will depend on the concrete design of a digital euro, it is not possible to provide a response at this stage.

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

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

Please explain your reasoning and provide quantitative evidence or estimates.

It is quite difficult to answer this question now, as it will depend on the concrete implementation. More in general, we could consider a bearer-based digital euro to be less costly.

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

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

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

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

It is important for merchant to have multi-solutions POS terminals. Thus, there is no reason to believe that digital euro transaction should be less costly than commercial euro transactions. Moreover, merchants should support the costs incurred by banks for developing the infrastructure and pay transaction fees.

Merchant fees

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

Yes	
No	X
Don't know/no opinion	

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

The business model and pricing related to the introduction of the digital euro should be market driven. The pricing of these services should be competitive,

while a limit fixed by law could lead to competitiveness issues. It should also be noted that there are no limits on cards, only interchange fees are regulated.

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

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

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

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

The different approaches would be reasonable and complementary. Merchants have cost to accept digital payments (instant payments, direct debits or card payments) and to manage cash. It could be a business model comparable to Bizum, where there is no exchange, no other transactional fees, the business model is based on the use of information to make it universal and interoperable, what we call "Query Fee", use of directory data to provide value-added services, where you only pay a "Query fee" for the use of this information.

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

Yes	X
No	
Don't know/no opinion	

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

There is no reason to surcharge payments in digital euro. Customer shall have unique experience and on the other side it will simplify the maintenance.

3.2. The legal tender status of euro cash

As mentioned in Commission retail payment strategy, while promoting the emergence of digital payments to offer more options to consumers, the Commission will continue to safeguard the legal tender of euro cash. The legal tender of euro banknotes as *lex monetae* is enshrined in Article 128(1) TFEU, according to which 'the banknotes issued by the European Central Bank and the national central banks shall be the only such notes to have the status of legal tender within the Union'. Furthermore Commission Recommendation of 22 March 2010 on the scope and effects of legal tender of euro banknotes and coins defines three core features for the legal tender: mandatory acceptance, acceptance at full face value and power to discharge from payment obligations. Next to this, according to the ECJ, the status of legal tender implies that a means of payment having legal tender involves a default obligation to accept it at full face value in payments and a corresponding default right to pay with it, unless that obligation and right are restricted for reasons of public interest, or waived by contractual agreement. The Commission will assess whether recognising the legal tender status of the digital euro also results in a need to define in a binding EU legislative proposal the meaning of legal tender for cash, in line with CJEU jurisprudence, to ensure coherence. We would therefore like to understand better the implications of the possible granting of legal tender status to the digital euro for the definition of legal tender of cash.

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

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

Please explain your answers.

If there is no economic benefit for consumers, the digital euro will have a slow adoption rate, even if imposed by law. Moreover, there are several questions that would need an answer: who and how will check if a merchant does not accept the currency? Starting from which amount a legal action shall be initiated? Which entity will be responsible to check, to identify and to initiate actions in case of non-acceptance? Realistically, such a law will not drive a faster adoption.

27. According to your organisation, is there a need for a further definition of justified exceptions to the general principle of mandatory acceptance if those are grounded on reasons related to the 'good faith principle'[1]?

Yes	
No	
No opinion	**X**

28. Which of the following exceptions should be defined?

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

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

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

Yes	
No	**X**
No opinion	

Please explain.

All exceptions should be decided and set at EU level to avoid fragmentation.

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

Yes	
No	
No opinion	**X**

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

Yes	**X**
No	
No opinion	

Please explain.

A CBDC should have same treatment as cash.

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

Yes	
No	
No opinion	**X**

Please explain.

The legislation on cash varies differently in each Member State. This topic should stay at national level and the implementation of this principle should not be carried out through regulation but through dialogue with the entities

responsible for developing the cash access network. On a more general note, supporting the acceptance is different than imposing it.

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

The digital euro could be distributed centrally by the Eurosystem or with the help of private sector intermediaries. In either case, the digital euro would likely have an influence on financial intermediaries' balance sheets, income statements, business model and services. In this section, we would like to understand better how financial intermediaries perceive the impact of the digital euro and how they could offer additional value to the digital euro, also depending on whether the digital euro is account based or bearer instrument/token based.

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

	Positive impacts/ opportunities	**Negative impacts/ challenges**
Credit institutions	- Reduction of cash handling costs - Under certain circumstances, income could arise out of retail CDBC connected to institution-specific value-added services - Stability of the payment system is secured against increasing concentration of payment transactions at a few, very large, non-EU tech companies - Relief for institutes in negative interest rate phases through the outflow of deposits to retail CDBC (especially in a tiered model, less with a low limit per citizen)	- Risk of disintermediation: a retail digital euro can lead to increased refinancing costs and could be dangerous for economic stability, especially in a crisis - Digital bank run risk - Systemic run risk - A digital euro would compete with existing banking payment systems, commercial role unclear, if the digital euro is more than an equivalent to cash (i.e., raw material to the economy) - Cost risk for credit institutions due to currently unclear allocation of implementation costs - Economic/business model challenges
Other payment services providers	N/A	N/A
Crypto-asset services providers	N/A	N/A

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

Please rate each 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
For financial stability purposes (e.g. to prevent bank runs in crisis situations)					X	
To prevent that the digital euro structurally disintermediates credit institutions (e.g. large conversion of bank deposits to digital euro)					X	
Other (please specify)					X	

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

The impact on credit institutions would be highly dependent on the future design of a digital euro and how attractive it will be to hold and use. Our answers to Q34 and Q36 are based on the assumption that a digital euro would be off commercial banks' balance sheets, leading to detrimental effects on banks' liquidity, profitability and their capacity to finance the economy. Therefore, we believe that the only way to avoid these effects would be to work on a solution where CBDCs would remain within banks' balance sheets.

For financial stability purposes. A central bank deposit is by definition less risky than a bank deposit. Despite the existence of national and future EU DGSs, the creation of a digital euro could lead to a different perception of risk by depositors between commercial bank money and central bank money and behavioural patterns would likely lead to a flight to safety in a crisis situation, all the more since money transfer to digital wallets is fast and online. If clients lose confidence in the solidity of their bank and massively transfer their money to a digital euro wallet, we believe this would limit the recovery capacity and increase the procyclical risk of failure of such bank. From this perspective, we see a holding cap as a better instrument to limit the withdrawal of assets, with no other constraining framework being able to prevent arbitrage. We would also like to underline that the loss of profitability consequent to the introduction of a digital euro would increase the fragility of the European banking system, which will run counter to the use case for more banking inclusion. This includes notably additional funding needs and higher funding cost on the overall wholesale funding but also the loss of revenues from fees and commissions as detailed in Q36. This would result in more expensive credit for banks customers and tighter credit lending criteria.

To prevent disintermediation. External studies find the flight of retail deposits resulting from the introduction of a digital euro could exceed 15% of the total amount of retail deposits in the case of 3,000 digital euro wallet used in full by

depositors. Extrapolating at Eurozone level, the level of deposits flight could range between €1 and €7.4 trillion. The issue would further increase when adding corporate deposits. In addition, the lost stable retail deposits would have a direct impact on liquidity ratios (LCR outflow rate at 5%, NSFR ASF at 95%) and there could be additional 2nd round effects on LCR and NSFR if the supervisor decides to alter the stability of the bank deposits which remain on their balance sheet (leading to higher LCR outflow rate, lower NSFR ASF rate). Moreover, internal liquidity stress test may be even more binding than the regulatory metrics.

To counterbalance this effect, banks will need to materially adjust their balance sheets. A first possible reaction could be an asset deleveraging which could concern sovereign HQLAs (with a likely deterring negative impact on LCR) or productive lending, to retail and SME clients. Another option could be to switch to market-based financing. However, (i) it is not possible for all banks; (ii) it is not only more expensive, but also more unstable – and hence riskier from a financial stability point of view; and (iii) as for MLT financing, historical SP and SNP issuances data show that the market would not have the capacity to absorb the additional extrapolated €1 trillion potential funding needed at Eurozone level. Wholesale funding will also mean banks being required to hold higher level of liquidity against deposits which would reduce lending further. It would also reduce diversification in banks liabilities. However, a solution just based on long term wholesale debt is not possible. Instead, the only viable solution would be a long-term Eurosystem refinancing, although this option would also require adjustments to the collateral framework (eligibility, haircutting conditions…) as banks would lack eligible collateral under the current collateralisation requirements. The solution to implement a long-term Eurosystem financing would though lead to an increased independence between the commercial banks and the central bank, any potential side effects to such interlinkages must be evaluated before decided to implement such system.

Another key concern is that the above-mentioned issue on the replacement of fixed-rate resources (non-remunerated deposit accounts) by a funding at variable rate could endanger some fixed-rate real estate mortgage systems (as the French one). This could lead to a transfer of this risk to consumers and SMEs and potentially curtail the volume of credit to the economy.

Finally, the developments of Decentralised Finance should also be carefully considered as they also play an important role - depending on future regulatory developments - with potential significant consequences if in particular digital euros could be lent on platforms.

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

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

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

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

The answer depends on the amount of the limits. We think that "reasonable" limits should be defined to allow citizens to process P2P or P2B payments. The amounts of these payments are usually quite small (a few hundred euros, not more) otherwise customers prefer some extra validation by banks. Holding limits or disincentives to the store of value function would not affect the usability of the digital euro in P2P payments, but it wouldn't increase its usability either. P2P payments are the natural use case of a digital euro. Despite some domestic P2P digital solutions that are already in place, there is a lack of a pan-European P2P digital solution.

Limits and disincentives to the store of value function would affect the usability of the digital euro in P2B payments and business-to-business payments, as the volume of this kind of transactions is usually higher than P2P payments. Nevertheless, limits should not be reduced for this reason if we do not want to deal with financial instability and the disintermediation of credit institutions. Furthermore, there are already digital solutions for person-to-business payments and business-to-business payments in place that work well and have proven to be efficient and secure. Trying to change it to introduce a digital euro in this use cases would be risky and inefficient.

For B2B and B2P, we consider corporates should have a higher cap limit.

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

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

	1	2	3	4	5	Don't know/not applicable
Volume (value) of retail deposits	X					
Volume (value) of corporate deposits	X					
Liquidity / bank run risk					X	
Volume (value) of new credit provision	X					
Revenue from payment services	X					
Net interest revenue		X				
Ability to perform anti money laundering (AML) and other compliance obligations	X					
Costs due to operational risk in retail payments			X			
Other (please specify)						

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

Should corporates also be entitled to hold a digital euro account without proper caps, additional liquidity outflows would occur. Especially deposits from SME's could decrease significantly. For corporates, there should be a special mechanism in place that ensures daily or immediate transfer of digital euro to bank accounts.

Liquidity/bank run risk. Based on some calculation, the deposit substitution of a 3,000 digital euro wallet would range between 0.5% to 18% of aggregate euro area bank liabilities, measured at end of September 2021. This deposit outflow would not be manageable at all for most banking business model in the EU and would likely force banks to deleverage massively. It should be noted that in the quantitative analysis referred to in Q34, the assumption was made that individuals would only be entitled to one digital euro account, i.e., the analysis was carried out at bearer level. It should also be noted that the impact on balance sheet would be even more severe for banks that have no access to market funding today.

Volume (value) of new credit provision. The substitution of deposit accounts or the reduced use of bank deposit accounts by customers will inevitably lead to a reduced knowledge of customers and their solvency. This would impact client scoring and banks' risk management with ultimately more stringent lending

conditions for some categories of lower-income customers or even a risk of eviction of these populations from bank lending.

Revenue from payment services and account management. Fees and commissions income represent approximately 50% of retail banking income and are a reliable revenue stream. Banks would thus face a significant decline in revenues related to fees and commissions paid by retail and SME customers who would either close their deposit account to permanently move to a digital euro wallet or drastically reduce the use of such their deposit account. Such a substitution might endanger the development of retail activities, jeopardize the "universal banking" model that has proven its resilience and robustness and also have repercussions on banks' nationwide physical presence.

Net interest revenue. Any additional funding, whether wholesale or provided by the ECB in replacement of lost retail non-remunerated deposits comes at a significant cost for the banking industry, considering the large volumes involved. This would have a detrimental impact on an already low net interest margin in the current interest rate environment. Not only funding needs would increase with the introduction of the digital euro, but funding costs could also increase if banks' credit quality were to be reduced in relation to higher debt, increased liquidity risk (potentially also factored in P2R capital charge, including for IRRBB) and the lower profitability which also impacts capital ratios. In that case, banks' overall funding needs would be impacted and not only the marginal issuances that would be made to compensate for the flight of deposits. Any attempt to remunerate sight deposits in order to limit the flight to digital euros would also be detrimental to banks' net interest margin in addition to raising serious issues of financial stability.

Ability to perform AML checks and other compliance obligations. In the same vein as for the assessment of clients' solvency profile, the substitution of deposit accounts by the digital euro wallet or the reduced use of bank deposit accounts by customers will inevitably lead to a reduced knowledge of customers (KYC) and a reduced visibility on payment flows, thereby limiting banks' ability to perform AML and other compliance obligations.

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

Overall, the digital euro is a support offered to commercial banks. Having a large base, this would be a string competitor to private stablecoins. And if there will be interoperability achieved, digital euro will be the most used digital money. the consequences of a stablecoin will largely depends on the issuer of the stablecoin. The risk of non-issuance of a digital euro is weaker if the stablecoin is issued by European PSPs rather than by a GAFA for example. Similarly, stablecoins issued by non-banks could potentially have detrimental effects on credit institutions, from a funding and liquidity management perspective. If banks would issue stablecoins themselves however, this would have a smaller impact on their funding.

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

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

	1	2	3	4	5	Don't know/not applicable
Volume (value) of funds on payment accounts hosted by payment institutions, e-money institutions or crypto-asset service providers				X		
Volume (value) of payments initiated by payment service providers or crypto-asset service providers from third party accounts			X			
Direct revenue from payment or crypto-asset services		X				
Revenues from investing the balance of payment or crypto-asset accounts						X
Revenues from data management			X			
Ability to perform AML and other compliance obligations			X			
Costs due to operational risk in retail payments and crypto-asset services				X		
Other (please specify)						

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

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

	1	2	3	4	5	Don't know/not applicable
Experience in on-boarding of customers					X	
Experience in Know Your Customer (KYC) and AML checks					X	
Efficient transaction verification and execution					X	
Experience in customer management					X	
Developing additional services using the digital euro				X		

Existing IT system for customer, front and back office services that could be adapted to the digital euro					**X**	
Other (please specify)						

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

We believe it is in the interest of central banks to keep the current intermediation role of commercial banks. Banks already have all the mechanisms in place to ensure AML monitoring and to manage customer relations, customer contact channels, administrative management, etc. If deposits were to be made directly to a central bank, this institution would have to maintain customer support, incident reporting and transaction monitoring to minimize the levels of fraud, misuse, and money laundering in the system. As the banking industry already has such capabilities, it would be more than reasonable to employ them, especially considering that neither the ECB nor any other National Central Bank (NCB) have sufficient know-how, experience, or the required capabilities to provide these services.

Nowadays, customers (both retail and business) expect banks to provide a full range of payment services and in case a digital euro is issued they will expect banks to provide additional services and features. In this respect, it should be further investigated whether the digital euro should be programmable, and what kind of additional services intermediaries could offer. Nevertheless, there are still outstanding questions related to legal uncertainties, market efficiency (value added as programmability can be developed also using existing payments systems) and trust in the digital euro.

Irrespective of this, it is clear there needs to be a sustainable business model and credit entities should receive a remuneration to offset the cost of distribution (set-up and on-going management). The authorities should also consider offering alternative financing mechanisms to mitigate negative impacts in the event of a significant substitution of digital euros for bank deposits.

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

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

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

Annual expenses				X		
Others, please specify						X

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

It is impossible to provide estimated figures related to the future costs of the distribution of the digital euro, especially considering its design model has not been decided yet. We just can foresee that the way to distribute the digital euro will be significantly different from the current distribution channels. In that way, the distribution costs of PSPs will increase.

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

To be assessed once the concrete characteristics of a digital euro are known.

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

Intermediaries required to implement AML/CFT rules must conduct due diligence on their clients. These measures need to be performed for example, when a user opens an account, when transactions are carried out, or when there is a suspicion of money laundering or terrorist financing. While specific AML/CFT rules may need to be devised based on the exact design features of a digital euro, general views related to the implications of AML/CFT measures for intermediaries and estimation of compliance benefits/costs are welcome.

42. How various design models of a digital euro would impact the AML/CFT compliance costs of private intermediaries?

(1 = 'no impact', 5 = 'very high increase in cost')

Design option	**1**	**2**	**3**	**4**	**5**	**Don't know/not applicable**
Account-based digital euro, available online		**X**				
Bearer-based digital euro, available online				**X**		
Bearer-based digital euro, available offline					**X**	

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

As to the account-based model, we can assess that the AML/CFT rules will not be different for a digital euro transaction and a 'traditional' euro transaction. Therefore, costs should not change significantly.

For the bearer-based model, the AML/CFT rules and obligations for intermediaries should be explicitly defined.

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

Generally speaking, the obligations for intermediaries should be the same for every transaction, irrespective of it happening in 'traditional' euro or digital euro. This would ensure a level playing field between different digital means of payment. Still, a clear governance framework needs to be agreed to ensure that end-to-end payment solutions rely on supervised private institutions in the distribution and provision of user-facing services. To be able to take on this responsibility, intermediating banks will need to continue to have access to transaction data for security, operational, and fraud prevention reasons. In

addition, a secure onboarding process, including the identification of the payee when making a transaction /payment, is essential.

More in detail, the concrete challenges will depend on different factors, like on the privacy level of digital euro transactions. For instance, it should be considered that in case of offline transactions, the validation can only happen ex post. In case of bearer model, the system must ensure that the sender intermediary and the receiving bank did a proper customer onboarding.

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

From an AML/CFT perspective, offline usage needs to be further investigated. The security and privacy of transactions in offline-mode needs to be separately investigated, as local store-of-value devices may embed transaction history. Any offline use of a CBDC needs to deal with the PSD2 provisions on strong customer authentication and dynamic linking to protect the customer from unauthorized payments. There must also be reconciliation procedures in place as soon as there is an online connection. A limit to the number of consecutive offline transactions and on the amount that can be transferred could also be integrated.

In some circumstances, the validation can be based on compliance vouchers, with a "validation" taking place anyhow.

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

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

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

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

Low value transactions should follow current AML regulation. There should be the same rules for all digital payments, including CBDCs.

6. PRIVACY AND DATA PROTECTION ASPECTS

The ECB's public consultation on the digital euro indicated that future users of the digital euro see privacy as one of the most important elements. Ensuring an appropriate level of privacy and data protection for the user of a digital euro is important to foster public trust in a digital euro, which underpins its adoption and use. Any processing of personal data must be in line with the Union data protection legislation, including the GDPR and the EUDPR.

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

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

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

Purposes	1	2	3	4	5	Don't know/not applicable
Fight against money laundering, organised crime / terrorism					X	
Enforcement of tax rules				X		

Payments settlement purposes				**X**		
Management of operational and security risks				**X**		
Enforcement of potential holding limits			**X**			
Additional innovative online services and functionalities				**X**		
Other, please specify						

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

Processing personal data would be necessary for activities such as for AML/CFT checks and for the enforcement of holding limits. It may be considered that intermediaries could process personal data to offer additional innovative online services and functionalities related to the digital euro. This would boost the innovation in the UE.

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

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

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

As central banks will not distribute a digital euro, they will not need to access to personal data for any purpose. The activities mentioned above shall be left to regulated financial institutions that have the necessary experience and tools available.

The digital euro system should follow requirements on protection of personal data and rules regarding money laundering and fraud, e.g., GDPR, AML and CFT regulation. Commercial banks have all the mechanisms in place to manage this (AML monitoring, customer profiling via data, customer relations, administrative management, etc.). A clear governance framework needs to be agreed upon to ensure that end-to-end payment solutions rely on supervised private institutions in the distribution and provision of user-facing services. To

be able to take on this responsibility, intermediating banks will need to continue to have access to transaction data for security, operational and fraud prevention reasons. Any means of payment must be robustly built so that it guarantees good operational reliability and can offer a high level of protection against cyber-attacks and different types of fraud. A robust cyber security strategy will be necessary to ensure the system will be future proof against any potential future large scale cyber-attack. A CBDC system might be a high-risk target. Even if the digital euro would be central bank money, it would still be subject to operational risks associated with fraud, theft, and loss. Just like cash stored in a physical wallet, end-users may lose their money if CBDCs are stored locally on a physical device that it is lost or stolen.

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	**X**
No	
No opinion	

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

We believe that the use of data for innovative activities in the EU should not be disincentivised since these will be in the interest of consumers and always safeguarding their rights. In the age of data, users must have the possibility to choose what to do with their personal data and have control over it. Nevertheless, it is of utmost importance to protect the privacy of European citizens, and some restrictions or enhanced consent requirements may be necessary to protect consumers from certain business models that may use data on transactions to target ads or offers, or to sell on to fourth parties.

7. INTERNATIONAL PAYMENTS WITH A DIGITAL EURO

While the digital euro is primarily aimed to be used within the euro area, questions about potential cross border use within or outside the EU (including by tourists and businesses) arise. While this may bring user benefits, its impacts on third countries' economies and monetary systems may be significant. While the ECB's consultation asked about the use outside of the euro area, we would like to better understand which use cases could be desired in the international context.

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

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

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

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

Tourists coming out of EA are allowed to withdraw cash from ATMs in the EA. As a consequence, they should also have access to digital euro, considering its "similar to cash" function. For trade and international business purposes, the retail digital euro is not appropriate and would require enhanced interoperability. In this case, risks related to capital flows should be further evaluated. On the other hand, we believe it is important to make sure that the digital euro will be future proof for enabling cross-border payments within Europe, including interoperability with other European CBDCs.

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

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

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

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

In contrast to many payment services, current solutions to deliver cross-border payments could be significantly improved. While domestic payment services (i.e., intra-EU) are already well developed and essentially work without frictions, we believe cross-border interoperability should be among the top priorities of the ECB. The banking industry is well aware of this and has started thinking about launching innovative projects and initiatives using commercial money. Said initiatives aim to improve cross-border payments, both globally and at European level. Digital means of payment have many features – real-time settlement, traceability and programmability – that if applied to cross-border payments could significantly improve both the quality of the service and the associated risks. Thus, there is room for a private global stablecoin to emerge and address these use cases.

Overall, considering that the digital euro acceptance network will be quasi-exclusively developed in euro area countries, we do not see any major negative impacts on regulated entities in a non-euro MS if its citizens hold some digital euros (as long as holding limits apply).

About ESBG (European Savings and Retail Banking Group)

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 17 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, which together employ 656,000 people driven to innovate at 48,900 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion billion in corporate loans, including SMEs, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking. Learn more at www.wsbi-esbg.org.

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Published by ESBG. June 2022.