



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Forum For Financial Stability

The Digital Euro Project

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Agenda

1 - The investigation phase

2 - The EC legislative proposal on digital euro

3 - The preparation phase

1. The Investigation Phase

1. Investigation phase

In 2021 the Governing Council appointed a High-Level Task Force to:

1. analyze the need for a digital currency;
2. provide an overview of possible design features of a digital currency;
3. assess possible implications of a digital currency from a monetary policy and financial stability perspective;
4. develop a design of a digital currency that would be effective with a view to possibly build an internal proof of concept for testing.

1.1 The need for a digital euro

1. A response to the evolution in payment trends

Digital payment channels are becoming increasingly popular and citizens should have the option of using stable central bank money, complementing physical cash.

2. Makes life easier for European citizens

It is accessible to anyone, including those without a bank account, free of fees and charges to pay any time and anywhere in the euro area.

3. Safeguards the strategic autonomy of Europe's payment system

Strengthens resilience through its own governance and infrastructure, supporting competition and innovation.

1.2 Considerations in digital euro design

1. Privacy of citizens through its use

Similar to banknotes, a digital euro should provide privacy to citizens in payments

2. Availability in several payment scenarios

Person-to-person

Physical and on-line stores

To and from government

3. Wide accessibility and acceptance

Should have reach to all citizens and merchants

Universal acceptance preferably with legal tender status

1.2 Considerations in digital euro design

4. Implications for financial stability

Digital euro could substitute commercial bank money

Could result in liquidity shortages for the banking system

At the extreme, could facilitate bank runs and make them even more rapid

5. Implications for monetary policy

Transmission of monetary policy is primarily through bank credit channel -
impact on liquidity in banks would therefore impair the transmission mechanism

6. Fraud and dispute management

Unlike banknotes, a digital currency would be susceptible to fraud risk or disputes especially in e-commerce, which would require a framework to address such matters.

1.3 Digital euro design

1. Distribution model of digital euro

To protect the right to privacy and personal data protection, digital euro will be distributed through intermediaries (PSPs that meet requirements of PSD legislation).

To ensure wider accessibility, public authorities or postal offices may distribute D€.

The Eurosystem will not have any access to individual information about transactions in and holdings of digital euro.

Onboarding existing customers would require no additional data - for new customers minimum required data for customer due diligence is needed.

Online payments to be treated with current AML/CFT requirements.

Offline payments subject to limits that lower risk of criminal misuse.

1.3 Digital euro design

2. Holding limits

A limit will be set on the amount of D€ that a citizen can hold, while for legal persons and merchants the holding limit will be zero.

The D€ is intended for usage in payments and not as an investment. Intention is not to remunerate holdings of D€ (zero interest)

The limit is calibrated to an amount that would not cause a material impact on monetary policy transmission and financial stability risks highlighted earlier.

If a person receives an amount that would exceed such limit, the excess would automatically be transferred to the linked private money account.

If there are insufficient funds in a D€ account, a payment would fail, unless the account is linked to a private money account where funds can be withdrawn immediately.

1.3 Digital euro design

3. User experience of citizens and merchants

People residing in the EA can choose to pay in D€ in the euro area if they wish to do so.

D€ can be used, either through a mobile phone (an app) or a card, and can be used:

- Person to person
- Point of sale in a physical shop
- E-commerce payments
- Payments to and from governments

Extending access to D€ to people residing elsewhere may be considered at a later stage

1.3 Digital euro design

3. User experience of citizens and merchants

Citizens can use to pay in D€ both online and offline.

Offline transactions need to be pre-funded and do not involve any PSP.

PSPs may integrate D€ app in their own app and provide additional services.

Citizens would find it convenient to link a D€ account to a designated payment account to fund payments in D€, especially given the holding limits.

To address the complexity of ensuring that holding limits are respected, the ECB proposes that each citizen can only have one D€ account, but portability from one PSP to another will be seamless with a unique account identifier.

1.3 Digital euro design

4. Role of PSPs

Liability of D€ holdings is on Eurosystem and not PSPs.

On- and off-boarding customers.

Linking D€ account with commercial bank money account.

User lifecycle management processes (data update, info display of balance and transactions, account recovery and portability and customer support)

Funding/defunding (manual and automated)

Transaction initiation, authentication, payment confirmation/rejection notification, dispute management, fraud management, and recurring payments.

1.3 Digital euro design

5. Compensation model

Free of charges for basic D€ services to private individuals (onboarding, a/c opening, holding, funding/defunding, basic payment instrument, making/receiving payments)

PSPs to charge merchants in line with other payment methods.

Distributing PSPs to receive compensation from acquiring PSP's (inter-PSP fee).

Eurosystem bears its own costs of management of the scheme, but PSPs will bear costs of distribution of D€.

2. The EC Legislative Proposal on Digital Euro

2. The EC Legislative Proposal

Digital euro to mimic banknotes and complements cash, such that it is:

- A liability of the Eurosystem but distributed by PSPs
- Accessible to all citizens and businesses – a retail and not wholesale D€
- An additional means of payment
- Legal tender, like banknotes and coins, with the parallel legislative proposal on legal tender of cash

2.1 Benefits to Consumers

A digital means of payment that can be used everywhere in the EA in a variety of settings:

- E-commerce
- Shops
- Person to Person - with or without internet access (Art. 23)
- Payments involving public administration

Accessibility through apps of PSPs or the ECB (Art. 25-28)

Caters for financially excluded residents (Art 22)

- no non-digital euro account necessary
- can have more than one D€ account each linked to one or more non-digital euro account, except for waterfall and reverse waterfall purposes (link to only one non-D€ account)

A D€ account can have multiple users (Art 13)

2.1 Benefits to Consumers

Privacy and data protection safeguards (Art. 34-37):

- ECB and NCBs will not have access to citizen's identity;
- PSPs to manage citizens' data, subject to data protection safeguards;
- Use of offline digital euro equivalent to use of cash.

PSPs prohibited from charging fees to natural persons for basic D€ services (Art. 17)

Basic services include (Annex 2):

- Opening, holding and closing of D€ account;
- Consulting balances and transactions;
- Non-automated funding and defunding from a non-D€ payment account or cash;
- Automatic funding in case of shortfall of funds and defunding in case of exceeding limit;
- Initiation & reception of D€ transactions by means of an electronic payment instrument;
- Provision of at least one electronic payment instrument (e.g. card).

2.2 Digital Euro & PSPs

Banks and Payment Institutions to give access to Digital Euro (Art.13):

- PSPs required to give access to residents of the EA but non-digital euro payment account can be with a different provider (Art. 13);
- Interoperability between PSPs (Art. 26);
- Can request compensation from merchants and inter-PSP fees at rates no higher than other comparable digital means of payment (Art. 17).
- PSPs can create value added services linked to the D€ account at a fee (Art. 24);
- Holding limits and no remuneration on D€ holdings to limit impact on substitution to bank deposits (Art.15 & 16).

2.3 Digital Euro & Merchants

Merchants must accept Digital Euro (Art. 7-12):

- Legal tender status to ensure broad acceptance;
- Additional payment channel beneficial to merchants as it gives wider market access;

Exceptions to acceptance of Digital Euro (Art. 9):

- Merchants (employing fewer than 10 persons or turnover less than €2 million) that do not provide digital means of payment.
- Payee is a natural person acting in a purely personal or household activity;
- Agreement between payer and payee on a different means of payment prior to payment;
- Based on legitimate and temporary grounds (burden of proof on payee).

2.4 Digital Euro Outside the Euro Area

Digital euro accessible to persons established/residing in the EA and visitors (Art. 13)

Persons established/residing in non-euro area EU MS (Art.18):

- Accessible only after conclusion of an agreement with the NCB of that MS.

Persons established/residing in third countries (Art.19):

- Accessible only after conclusion of an international agreement.

Cross-currency payments subject to prior agreements between the ECB and NCB of non-euro area MS and third countries (Art. 21).

2.5 ECB Opinion on the EC Proposal

ECB welcomes the EC legislative proposal which broadly has taken on board the decisions made by the ECB in the design of the D€ during the Investigative Phase

Main divergences:

- With EC proposal, citizens can have more than one digital euro account and a D€ account can have multiple users.
- With EC proposal, basic D€ services do not include automated funding and defunding.

2.5 ECB Opinion on the EC Proposal

ECB suggests some amendments in the EC legislative proposal:

- On multiple accounts the ECB will conduct an in-depth technical analysis on reconciling having multiple accounts and management of individual holding limits.
- EC proposal should better clarify that obligation to provide access to D€ is extended to all PSPs and not only credit institutions.
- ECB prefers to give primacy to monetary policy rather than financial stability with respect to setting of holding limit.
- ECB argues that TFEU gives it the power to control remuneration of all its liabilities, even though it is not planning to remunerate holdings of D€.

2.5 ECB Opinion on the EC Proposal

ECB suggests some amendments in the EC legislative proposal:

- ECB is of the view that formal responsibility to regulate fees lies with legislators and not the ECB but stands ready to provide technical support to assist co-legislators.
- ECB supports the introduction of both online and offline functionality, but to consider introduction of both as of the first issuance on a “best effort obligation” basis.
- ECB proposes to expand basic services to include automated funding or defunding from a non-digital euro payment account.

3. The Preparation Phase

3. Next steps: The Preparation Phase

Decision by the ECB to issue D€ would only be taken after the adoption of the legal acts

However, the Eurosystem would require preparatory work ahead of such decision...

...and together with intermediaries and merchants, will then make the necessary adaptations after the adoption of the legislative acts

3. Next steps: The Preparation Phase

Part 1 of Preparation Phase will comprise:

- **Finalizing the scheme rulebook**
Aim is to provide a single set of rules, standards and procedures to ensure a harmonized digital euro implementation across the euro area
- **Selection of service providers**
To develop the different components of the digital euro product
- **Learning through experimentation**
Further analysis and tests on D€ design aspects and functionalities, user experience, financial inclusion and ecological footprint

Part 1 of Preparatory Phase expected to take around two years

3. Next steps: The Preparation Phase

Part 2 of Preparation Phase (subject to approval by the GovC and adoption of legal acts) expected to comprise:

- **Development of Digital Euro Components between Eurosystem and market stakeholders**
- **Pilot testing and staggered rollout approach of digital euro market launch**
 - first release could include Person-to-Person and e-commerce
 - second release could include point of sale payments
- **Move from project to operations**

Thank You
