Advanced functionalities: Cross-currency

Market Advisory Group

09 November 2022

Digital euro project team
Where do we stand?

Tentative - timing subject to change

Use case prioritisation
- Report on focus groups with citizens and merchants

Design options to moderate take-up
- Distribution model

Compensation model
- Access to ecosystem
- Value added services

Advanced functionalities

Prototyping results

July 2021
- Governing Council decision to launch investigation phase

Q4-2021 - Q1-2022 - Q2-2022 - Q3-2022 - Q4-2022 - Q1-2023 - Q2-2023 - Q3-2023

Project team on-boarding
- Governance set-up

On-line/off-line availability
- Data privacy level
- Transfer mechanism

Settlement model
- Distribution of amount in circulation
- Role of intermediaries
- Integration and form factor
- Funding and defunding
- Prototype development

Selection of service provider(s)
- for possible project realisation phase

User requirements
- Preparation for possible project realisation phase decision making

Tentative - timing subject to change

Autumn 2023
- Governing Council decision to possibly launch realisation phase

Design options to moderate take-up
- Advanced functionalities

Prototyping results
Objective of today’s exchange

Present the investigation of cross-currency payment functionalities for the digital euro.

Invite your feedback on the analysis of cross-currency digital euro payments functionalities identified by Eurosystem (followed by written procedure until 5 December) as input for Eurosystem preparations of final decisions on these functionalities by Governing Council in Q1 2023.
Analysis of **design choices for cross-currency payments**, which are payments where the money sent by a payer and that received by a payee are denominated in two different currencies → debiting and crediting in **different currencies and FX conversion**

**Context:**
- work conducted under the auspices of the G20, in which three possible **interoperability models** are considered
- discussion on **use cases** that CBDC cross-currency payments could serve
G20/BIS models for interoperability applied to the context of retail CBDC
Individual CBDC systems using common standards, such as message formats, cryptographic techniques, and data requirements

Different CBDC systems are linked (e.g., set of contractual agreements, technical links, operational components), allowing participants to transact with one another without participating in each system

Most realistic; Advanced economies

Shared single system among the multiple currencies involved in the cross-currency CBDC transaction

Most ambitious; Regional (EEA) CBDCs; Impact on design of D€ back-end
Use cases and front-end considerations
Possible use cases to explore with other jurisdictions

A digital euro shall be developed with a view to **domestic payments first**. **Cross-currency use** can only be considered for future releases and depending on the possible development of CBDCs by other central banks.

### Digital euro transactions

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Person-to-person</strong> (P2P)</td>
<td>a payment between two people</td>
</tr>
<tr>
<td><strong>Consumer-to-business</strong> (C2B)</td>
<td>a payment for goods or services purchased in a physical store (point-of-sale payment) or online via e-commerce</td>
</tr>
<tr>
<td><strong>Payments to the government</strong></td>
<td>(X2G, e.g., taxes) and by the government (G2X, e.g., allowances and subsidies)</td>
</tr>
</tbody>
</table>

### Cross-currency transactions

1. **1st cross-currency** person to person payments in CBDC with FX conversion (incl. remittances)

2. **2nd digital euro users** purchasing goods and services from an online merchant outside of the EA with currency conversion

   digital euro users purchasing goods and services from a merchant outside of the EA at a physical point of sale with currency conversion

**Not in scope** for cross-currency transactions.
Way forward and discussion
Conclusions

• Prioritise the timely delivery of a digital euro that meets the needs of the domestic market

• Explore the interest of other jurisdictions towards establishing cross-currency interoperability once both CBDC will possibly be in place

• Contribute actively to the discussion in the international fora, also working on standardization and harmonization as much as possible up front
Way forward

- **Further investigation** on cross currency functionalities
- **Consultation of Eurosystem committees**
- **Outreach to other Central Banks and international fora, as well as external stakeholders**

Eurosystem views to be **updated in Q1 2023** based on the outcome of Eurosystem committees’ consultation, preliminary external discussions and further internal analysis, and to be **finalized towards the end of the investigation phase**

Review of combined design decisions (“Bringing it all together”) in Q2 2023 and feedback by stakeholders on overall design prior to Governing Council decision making thereafter
We invite reflections on all aspects of the analysis, including the following questions:

• Do you agree that the digital euro should prioritise first the needs of the domestic market?

• What is your view on the feasibility of facilitating remittances & e-commerce payments for cross-currency transactions?

• What challenges do you see in achieving cross-currency interoperability under the various use cases?

• What obstacles do you see to the provision of cross-currency payments in digital euro? Which ones would the Eurosystem need to address concerning the provision of cross-currency payments in digital euro?
Thank you