Advanced functionalities: Cross-currency

Euro Retail Payments Board

10 November 2022
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

Q4-2021
Project team on-boarding
Governance set-up

Q1-2022
On-line/off-line availability
Data privacy level
Transfer mechanism

Q2-2022
Settlement model
Distribution of amount in circulation
Role of intermediaries
Integration and form factor
Funding and defunding
Prototype development

Q3-2022
Selection of service provider(s)
for possible project realisation phase

Q4-2022
Decision making document including advice on potential issuance digital euro, its design and implementation plan

Q1-2023
User requirements
Preparation for possible project realisation phase decision making

Q2-2023

Q3-2023
Autumn 2023
Governing Council
decision to possibly launch realisation phase

July 2021
Governing Council
decision to launch investigation phase
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.
What this dossier is about

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
G20/BIS interoperability models applied to retail CBDC context

1. **Individual CBDC systems using common standards**, such as message formats, cryptographic techniques, and data requirements

2. **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

3. **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>
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<tbody>
<tr>
<td><strong>Person-to-person (P2P):</strong></td>
<td>a payment between two <strong>people</strong></td>
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<tr>
<td><strong>Consumer-to-business (C2B):</strong></td>
<td>a payment for goods or services purchased in a <strong>physical store</strong> (point-of-sale payment) or online via <strong>e-commerce</strong></td>
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<tr>
<td><strong>Payments to the government (X2G, e.g., taxes)</strong></td>
<td>and <strong>by the government (G2X, e.g., allowances and subsidies)</strong></td>
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### 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
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