Update on digital euro

Euro Retail Payments Board

07 July 2022

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Agenda

1. Why issue a digital euro?
2. Timeline & interaction with the market
3. Design of a digital euro
4. Options for the distribution model of a digital euro
Why issue a digital euro?
Why issue a digital euro?

The digital euro as **monetary anchor** would preserve public access to central bank money being **widely accessible to prospective users in all euro area countries**

A digital euro would defend the **strategic autonomy** by of the euro area by increasing the independence from non-European payment solutions and would increase **economic efficiency** as the (latent) competition from central bank money to private money providers can curb market-abusive behaviour.
Timeline & interaction with the market
Where do we stand?

Tentative - timing subject to change

July 2021
Governing Council
decision to launch investigation phase

Q4-2021
Use case prioritisation
Report on focus groups with citizens and merchants

Q1-2022
Design options to moderate take-up
Distribution model

Q2-2022
Compensation model
Access to ecosystem
Value added services
Advanced functionalities

Q3-2022
Prototyping results

Q4-2022
Selection of service provider(s) for possible project realization phase

Q1-2023
Decision making document including advice on potential issuance digital euro, its design and implementation plan

Q2-2023
Selection of service provider(s) for possible project realization phase

Q3-2023
Governing Council
decision to possibly launch realization phase

Q4-2023
User requirements
Preparation for possible project realization phase decision making

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

Q2-2022
Settlement model
Amount in circulation
Role of intermediaries
Integration and form factor
Prototype development

Q3-2022
Project team on-boarding
Governance set-up

Q4-2022
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Report on focus groups with citizens and merchants

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## Broad stakeholder engagement

| The Euro Retail Payments Board | • The ERPB is the forum for institutional dialogue with the market on a digital euro.  
• Periodic **updates in regular ERPB meetings**  
• **~bi-monthly EPRB technical sessions on digital euro** to discuss preliminary Eurosystem analysis of design and distribution options, followed by **written feedback** by stakeholder associations and **dedicated exchanges with stakeholder associations by sector** to discuss feedback and follow-up questions  
  • May: *Foundational design options for digital euro*  
  • July: *Options for the distribution model for digital euro*  
  • Next technical sessions in September and November |
|-----------------------------|-------------------------------------------------------------------------------------------------|
| Digital Euro Market Advisory Group (MAG) | • Market practitioner group with the aim to take account of the views of prospective distributors of a digital euro and tap market intelligence and professional expertise in the design stage  
• The **MAG will provide input on a strategic level for the product design and distribution** |
| European Commission, European Parliament, euro area Member States and other EU authorities | • **Close cooperation with European Commission** on range of policy, legal and technical questions related to digital euro.  
**Regular exchanges with the European Parliament and euro area finance ministers** on Eurosystem analysis of design and business model options.  
• **European institutions** will provide views on the design options and EU co-legislators will adopt legislation on digital euro based on proposal by European Commission. |
| ECB Civil Society Seminars | • Seminars where ECB experts **present the work and exchange views** with representatives from European civil society organisations |
Design of a digital euro
Proposed use cases

For the early releases of a digital euro (2025-2027)

**Prioritisation** proposed to be given to:

- **E-commerce**
- **Point-of-Sale and Person-2-Person**
- **G2X and X2G** (i.e. payments between government and other actors)
Three foundational set up options

**OPTION 1**
With peer-to-peer validation of offline transaction

- Peer-to-peer validation of offline transactions via secure hardware devices
- Privacy of low-value proximity payments within limits set by legislation

**OPTION 2**
Available online and validated by a third-party

- Third-party validation of online transactions
- Transparency of transaction data to intermediaries for AML/CTF purposes

**OPTION 3**
With peer-to-peer validation of online payments

- Peer-to-peer validation of online transactions via secure devices
- Allows remote payments but transactions cannot be checked ex-ante

_Its technical feasibility and associated legislative framework need to be further assessed_

_Solutions to increase its resilience to connectivity outages need to be further investigated_

_Experimental solutions, unlikely to be ready for the first release. Thus, not further analysed in this phase_
Privacy options (from user perspective)

Anonymity

- Identity of users is unknown when they access services; no KYC during onboarding.

Non-transparent to third party

- KYC during onboarding; holdings/balances and transaction amounts are not known to intermediary and central bank.

Transparent to intermediary

- KYC during onboarding; transaction data and users’ profiling data transparent to intermediary for AML/CFT purposes.

Selective privacy

- KYC during onboarding; higher degree of privacy for low-value transactions; large-value transactions are subject to standard CDD checks.

Fully transparent to central bank

- KYC during onboarding; all transaction data and users’ profiling data fully transparent to central bank.

Preliminary view: beyond the baseline, technical & legal dependencies to be investigated

Preliminary view: beyond the baseline, dependencies with legislation to be investigated

Preliminary view: not to be pursued, only minimum info

Currently applicable baseline scenario

Preliminary view: not to be pursued
Excessive use to be avoided by design

**Price-based tools**
(tiered) remuneration

**Limit-based tools**
Limits on individual holdings (with optional waterfall)
Limits on conversion into digital euro (in a defined short period of time)

**Combination of tools**
Design is likely to include a combination of tools, to be parameterized closer to digital euro issuance, even if not all necessarily active at the same time

Any **undesirable consequences** that may result from the issuance of digital euro for monetary policy, financial stability or the provision of services by financial intermediaries are best mitigated by design, pre-empting excessive uptake by means of quantity-and remuneration-based tools
Feedback from ERPB technical sessions

- ERPB stakeholder associations supported a digital euro with peer-to-peer validation of offline transaction (option 1) while recognizing technical challenges.

- A digital euro with online and validated by a third-party (option 2) was strongly supported, with members expecting significant reliance on the existing intermediaries and infrastructures, seeing potential for the collaboration between the Eurosystem and the market, as well as opportunities for the intermediaries to develop value added services.

- A digital euro with peer-to-peer validation of online payments (option 3) was not seen as a viable option at this moment, in line with the Eurosystem position not to pursue this option now.

- ERPB members expressed broad support for Eurosystem’s considerations on privacy options for digital euro payments. Most members supported ruling out full anonymity and agreed with focusing on currently applicable baseline scenario; options allowing higher degree of privacy for low-value/low-risk payments should be explored while maintaining a level playing field with private solutions.

- As regards tools to limit excessive use for investment, members supported holding limits to prevent structural disintermediation/digital bank runs in times of crisis, while views on tiered remuneration were more nuanced.
Options for the distribution model
Distribution options & digital euro key objectives

- **Issuance**: Only issuing digital euro; all other aspects left to market participants.
- **Open access**: Providing an open access (e.g. via an API) to market participants.
- **Payment scheme**: Developing a common rules-based framework to participants to develop their products.
- **End-to-end solution**: Providing a fully fledged back-end to front-end solution.

- **Preserving the role of public money as the monetary anchor for the payment system**
- **Strategic autonomy of European payments and monetary sovereignty**
- **Foster innovation, increase the efficiency of payments, and support the overall economic efficiency of the European Union.**
• **End-user experience** might be hampered across the euro area by insufficient degree of interoperability.

• Difficulties for achieving **widespread distribution** and enhancing financial inclusion.

• Would give room to supervised intermediaries to foster innovation, but might introduce market fragmentation.

• Facilitates a **homogenous end-user experience** across the euro area and interoperability via standardisation.

• Best positioned to ensure **pan euro area reach**.

• Respects the **role of supervised intermediaries** and still offers room for innovation.

• Would contribute to achieving **homogenous end-user experience** and **widespread distribution**.

• But challenges on meeting **end-user demands** and keeping up with innovation.

• Reduces the **role of supervised intermediaries**.
A digital euro payment scheme

- Defines the **rules and requirements that supervised intermediaries would need to follow** to provide digital euro end-user products
- Is managed under a dedicated **governance** framework
- Facilitates **pan-euro area reach**, by containing a set of technical and/or commercial rules to ensure a harmonized user experience
- Can cover the **prioritised use cases**
- Ensures a **balance** between roles and responsibilities shared by the Eurosystem and the supervised intermediaries
- Can respond to **innovation** trends and to accommodate domestic specificities

**Open questions:**

*How wide would the scope of the scheme management be?*

*How would the scheme governance work in practice and who would be part of it?*
Thank you for your attention!