EBA CLEARING's response to the European Central Bank's Public consultation on a digital euro

The European Central Bank (ECB) and the national central banks of the euro area are together assessing whether to introduce a digital euro and in this regard have launched a Public Consultation on its potential design, use and the role of the different stakeholders in the financial ecosystem.

EBA CLEARING has submitted a response for the Eurosystem's consideration raising the following points:

- **Digital euro existence:**
  - Pan-European euro wholesale and retail payments in a digital form already exist today, e.g. RTGSs, TARGET2 and EURO1 for wholesale payments and STEP2, TIPS and RT1 for SEPA retail payments. Acceptance is very broad, and the euros are fungible. The ecosystem around the current digital euro is mature and functions well. Any new form of the digital euro would need to be fully interoperable with the current ecosystem, as it is unlikely to replace it.

- **Role of other stakeholders:**

  - The roles which banks, payment institutions and other entities are fulfilling today for euros kept in electronic form, in their role of intermediary -as settlement agents, processor of payments, distributor of notes and coins, and maintaining balances of their customers- should be the same for the provision of a digital euro to end users. The financial ecosystem has relied on this model for several decades now and the model has demonstrated a number of advantages, such as resilience and risk mitigation, as well as innovation, competition and bringing choice to end users.

  - Intermediaries should continue to play a role in the future digital euro infrastructure's front and back end. For the back end, the infrastructure behind the SEPA Instant Credit Transfer (SCT Inst) should be used. In recent years, the industry has made substantial investments in the roll-out of instant payments. The ecosystem is being operated with state-of-the-art technology, there is resilience and choice and innovation will continue to enhance its functioning.

  - As suggested in the Eurosystem Report, there could be a segregation between the front-end and the back-end digital euro. These two layers should, from an architectural point of view, interact but also be able to operate independently from each other. To ensure resilience and choice, any front-end digital euro solution that would be provided by the Eurosystem should be able to function with both public-sector and private-sector operated back-end solutions. Any back-end digital euro solution that would be provided by the Eurosystem should be able to function with both public-sector and private-sector operated front-end

solutions. Any (part of the) solution should be based on international standards and should operate using open schemes which are managed by a user-driven governance.

- **Design:**
    - The front-end set-up could use the SEPA Request to Pay (SRTP) scheme. SRTP leverages SCT Inst infrastructure investments of the industry and allows service providers of payers and payees to independently develop their own value propositions on top while allowing them to interoperate on a pan-European scale on technical standards. Existing investments in strong customer authentication, apps, devices etc. can be easily integrated, which will ensure a fast uptake. By design, SRTP providers ensure strong customer authentication of their own clients, while in the exchange of information personal data can be kept to the strict necessary data to avoid confidential or private data is shared throughout (or outside of) the processing chain. This furthers the objective of privacy in the digital euro strategy.

    - In addition, as payer and payee are not forced to use the same platform to execute a payment, competition on different value propositions for end users will be stimulated. This will also encourage that solutions will be developed for currently under-serviced groups. Offline processing can be offered as a value-added service as well by providers that are willing and equipped to manage such risks.

    - Leveraging existing schemes (including SRTP) on top of processing infrastructures in place, including two pan-European infrastructures, will ensure resilience in case of temporary unavailability of parts of the ecosystem and will avoid creating single points of failure.

- **Single Point of Failure:**
    - It is of key importance that the model used for the introduction of the digital euro does not create single points of failure. The benefits of having intermediaries in the model are, in particular, exemplified in situations of a financial crisis when, in case of a bank failure, the Central Bank can play its key role as lender of last resort and ensure financial stability. This intermediary layer plays an important shock-absorbing function and should continue to do so in a future digital euro set-up.

- **Features:**
    - A digital euro should be use-case agnostic and should in its design not exclude any particular use case in and outside of the Eurozone. It should fully support end-to-end business processes and carry the requisite information needed to do so.

    - To ensure a level playing field, all intermediaries providing digital euro services to households and businesses should fulfil the same regulatory or oversight requirements as exist today for intermediaries that process

payments or provide similar payment services, e.g. compliance with the PFMI, the recently consulted PISA framework, the Settlement Finality Directive and PSD2. This is in line with the pledge of the Eurosystem to follow a same business/same risk/ same supervisory approach.

- In line with existing regulations for electronic transactions, existing controls should apply, including anti-money laundering requirements, combatting the financing of terrorism, tax evasion. In addition, strong customer authentication should be ensured. This is not only important for ensuring those objectives are not lost in a digital currency model but also for maintaining a level playing field with existing electronic payment solutions.

- Any instrument to be implemented by the Central Bank should be simple, standardised and effective, and should avoid creating barriers to use or entry. The playing field between public-sector and private-sector initiatives need to be kept level in order to stimulate innovation and prevent crowding out the private sector.

- In terms of cross-currency payments, the digital euro should leverage international standards, be verifiable and freely convertible. Efforts to strengthen the international role of the euro using the digital euro should not discourage other (ongoing) initiatives aimed at reinforcing cross-currency payment efficiency, for which a prescriptive roadmap was outlined as Pillar 4 of the European Commission's Retail Payments Strategy.

- In terms of software and hardware solutions, there should generally be no restrictions on the software and hardware solutions used, as long as the regulatory obligations, including the operational, risk and security requirements can be met.

- It will be important to avoid that solution providers are able to steer both payer and payee to the same technical solution. The design of the architecture should ensure that payers and payees can choose their own providers and interact through these. For this to occur, services must be interoperable, on the basis of open schemes and international technical standards. This will allow payment services providers to compete on value-added services (including the software and hardware solutions they would offer), which would stimulate overall competition and innovation in the ecosystem.

- **Risk mitigation:**

  - The decentralisation of funds and offline processing of transactions creates a risk of inaccuracy as well as of fraud, theft and (inadvertent) money creation. In the case of a security breach, in a decentralised model, it should be possible to address the issue centrally, for example by stopping the system or recalling the "notes". For invalid euros, this also begs the question of whether (and, if applicable, how) to unwind

previously “settled” transactions. Legal measures and/or schemes (through rulebooks) could help mitigate these.

- In relation to the risk of counterfeiting and/or technical mistakes, if the architecture caters for intermediaries and for flexibility in terms of software and hardware solutions, then these issues can be addressed through technological innovation in information and cyber security controls and business continuity frameworks. It might help to agree on a technical mechanism (such as real-time reconciliation or a hashing algorithm) to ensure that money inside a decentralised processing entity is congruent with central bank issued money at all times. This should already be considered for today’s digital ecosystem with decentralised processing by financial market infrastructures.

EBA CLEARING is very interested in continuing its active dialogue with the Eurosystem and, in particular, with the ECB on the evolution of the euro payments landscape in general and, in particular, to discuss the different areas for collaboration between the private and public sector, as pointed in the response above.

As the system operator of two pan-European systemically important payment systems, EURO1 and STEP2-T, and one of the two pan-European SCT Inst payment systems, RT1, as well as ancillary services around these, and due to its pan-European user-driven governance and DNA, EBA CLEARING has valuable contributions that could be leveraged for the success and roll-out of the digital euro and the overall objectives of Europe in this regard.