



DIGITAL CURRENCIES
Governance Group

THE EUROPEAN COMMISSION'S TARGETED CONSULTATION ON A DIGITAL EURO

DCGG CONSULTATION RESPONSE

QUESTION 3. IN VIEW OF THE MOST IMPORTANT VALUE-ADDED FEATURES YOU CONSIDER A DIGITAL EURO MAY BRING TO PEOPLE (SEE QUESTION 1), IN WHICH PAYMENT SITUATIONS DO YOU THINK THE DIGITAL EURO WOULD BRING THAT ADDED VALUE FOR PEOPLE?

Paying with / transferring digital euros to a (natural) person face to-face – No added value

Paying with /transferring digital euros to a (natural) person remotely – Significant added value

Paying for goods or services at a point of sale (face-to-face) – Almost no added value

Paying for goods or services remotely (ecommerce) – Significant added value

Machine to machine Payments (Industry 4.0, IoT) – Some added value

Paying in situations without connectivity – offline face to face payments – Some added value

In order for the digital euro to add proper value to the EU citizen and offer more than just minimal benefits to the payments system, it would require a significant level of use and demand from individuals and industries alike. Interoperability with existing cryptoassets and stablecoins would ensure that the scope of use and demand encompasses more than just the traditional financial system, thus adding more value.

Face-to-face and remote options for payment/transferring Euros already exist, so a digital euro would not necessarily be providing much extra added value to this facet of its potential use.

Still, in cases of remote transactions, a digital euro would bring relatively more added value, especially if interoperable with other existing stablecoins in the crypto space.

There is a case that could be made if the digital euro had legal tender status because this would increase uptake among merchants and consumers, but if there are no incentives for the use of a digital euro, then its uptake will be low. Furthermore, uptake of the digital euro for face-to-face and remote payments could be increased if the digital euro was interoperable with existing forms of payments including crypto currencies.

It should be noted that interoperability of stablecoins with the digital euro would mean that digital euros could be exchanged for stablecoins that are used as a means of exchange.

There are also stablecoins that are not used as a means of exchange. For these, interoperability is not necessary, but it should be possible to buy these stablecoins with the digital euro. In this way, both models can coexist and ultimately diversify the digital currencies ecosystem in Europe.

QUESTION 5. HOW IMPORTANT WOULD THE FOLLOWING POLICY OUTCOMES RELATED TO THE POSSIBLE ISSUANCE OF A DIGITAL EURO BE IN YOUR OPINION?

Providing access to public money in digital form for everyone – Very important

Monetary sovereignty – Not important

A stronger open strategic autonomy for the EU – Not important

A broader access to digital payments for people with less digital skills, disabilities or other physical vulnerabilities – Very important

A broader access to digital payments for unbanked people (i.e., without bank account) – Very important

Enabling for pan European payments – Very important

Preserving privacy and data protection in payments – Very important

Development of the EU's digital economy innovation – Very important

Facilitating the provision of Europe Wide private payment solutions - Neutral

Providing a European public alternative to the emerging new payment solutions such as crypto assets, stablecoins and foreign CBDCs – Not important

Decrease payment costs – Very important

The digital euro as an innovation is an important step for ensuring access to a digital form of the euro for everyone and a necessary step for the future. We expect the use of physical cash to decline in the future as economies around the world become increasingly more digitalised. As such, having the foundation for a digital euro now to provide access to public money in the digital form and increase access to digital payments for EU citizens will prepare the EU's economy for a future that would be almost entirely digital. Without a digital euro, the EU could be put at a disadvantage to countries that do have a digital currency.

DCGG sees the development of a digital euro as an opportunity to push innovation on digital payments solutions if the private market ability to innovate is harnessed successfully. The development of a digital euro and its corresponding infrastructure which would incorporate the use of blockchain technology could lead to innovations in DLT infrastructure and increasing accessibility of the infrastructure.

We believe it is important that the EU ensures its competitiveness in the digital payments sector and that a digital euro does not serve as a replacement to existing solutions; however, the ECB and the Commission, in their work on the digital euro project, must engage with private sector digital asset experts and other relevant stakeholders throughout the entire development phase to ensure that the digital euro serves as a complement to existing payments solutions.

The ECB would require digital assets experts that consult the bank on how to ensure compliance and certainty and provide appropriate guidance in order to safeguard the benefits and policy outcomes of the digital euro, placing sound consumer protection and risk mitigation mechanisms in its core.

QUESTION 6. WHAT ASPECTS OR FEATURES OF THE DIGITAL EURO WOULD BE IMPORTANT TO SUPPORT FINANCIAL INCLUSION?

Easy process of onboarding – Rather important

No need for bank account – Rather important

Easy payment process (initiating and authenticating a payment transaction) – Rather important

Accessible device for payments (e. g. chipcards) - Neutral

Enabling of offline, peer to-peer transactions – Very important

Other (please specify) - Interoperability with complementary digital asset solutions – Very important

Interoperability with alternative digital payments solutions touches upon a strand of financial inclusion that is becoming increasingly prevalent with recent digitalisation.

The digital euro would play an important role in addressing a number of situations in payments, offering a competitive EU alternative to more traditional payments, and protecting the EU's monetary sovereignty in a world where more countries are considering CBDCs. Cryptocurrencies also address needs of European citizens, and if a digital euro is to be used widely by citizens, then ensuring that the digital euro is interoperable with cryptocurrencies is crucial. A digital euro realistically cannot be a replacement for cryptocurrencies or stablecoins as they would be fundamentally different in purpose and function.

While it would be reasonable to assume that there are 'financially excluded' citizens who do not have access to banking services, it could be argued that there are those who have turned to alternative payment solutions or have lack of access to suitable banking or investment products.

In order to make the digital euro attractive to those individuals and thus create a more harmonized and richer EU payments system, the digital euro needs to be completely interoperable with and complementary to all other payment solutions.

Overarching financial inclusion would be a pivotal achievement of the digital euro project, and it is important to aim for sustainable effectiveness, use and demand. If the digital euro runs on the blockchain, not only would the ECB receive instant and transparent transaction records, but also the immutability and time-effectiveness of transactions/peer-to-peer transfers executed on the blockchain will immensely improve financial inclusion in the EU ([Chamber of Digital Commerce, 2017](#))

QUESTION 8. HOW WOULD THE FOLLOWING ASPECTS OF A DIGITAL EURO SUPPORT A DIVERSIFIED AND COMPETITIVE RETAIL PAYMENTS MARKET, WHERE A VARIETY OF PAYMENT SERVICE PROVIDERS OFFER A BROAD RANGE OF PAYMENT SOLUTIONS?

Allowing for the distribution of the digital euro to take place through regulated financial intermediaries (Payment Service Providers) - Positively affect

Offering another form of central bank money in the context of a declining use of cash for payments - Positively affect

Existence of holding caps or interest and fees on large holdings to limit the store of value in the form of digital euros (for financial stability reasons) - Positively affect

Using the digital euro acceptance network to foster pan-European private sector initiatives - Positively affect

The digital euro could expand the level of competitiveness within the current payment ecosystem and improve the EU's monetary resilience. Moreover, it would serve as a cash-free alternative in the single currency market, providing a novel strand of consumer choice in payments and store of value options. For this to be achieved however, comprehensive and clear regulatory frameworks are a must.

To capture the same benefits and growth as other payment solutions (e.g., private sector stablecoins) it is crucial that the digital euro is interoperable with both the existing traditional financial sector, as well as the crypto asset service provider sector, at the European and the international level alike.

We see that there are potential risks of bank runs or a flight to the digital euro due to the possible demand for a digital euro as well as risks to monetary sovereignty that could arise from foreign purchases of large amounts of digital euros. As a digital euro would give the ECB direct exposure to this risk to monetary sovereignty and to EU citizens also holding digital euros, steps need to be taken to ensure that these risks are as mitigated as possible. DCGG would want to see the same monetary safeguards that apply to the euro also apply to the digital euro.

It is not clear for us whether a hard limit on the amount held or a tiered remuneration model would be more appropriate as a limit on digital euro holdings, however taking the approach of a hard limit at first seems like the more prudent option.

QUESTION 9. HOW IMPORTANT THE FOLLOWING POSSIBILITIES FOR THE USE OF A DIGITAL EURO WOULD BE TO SUPPORT THE DEVELOPMENT OF THE EU'S DIGITAL ECONOMY?

Possibility for programmable payment functionalities provided through the digital euro solution – Very capable

Possibility for integration with other payments solutions (independent of what technology they use) - Very capable

Integration with platforms relying on distributed ledger technology (DLT) /blockchain for smart contracts applications (beyond payments) - Very capable

According to the [Bank of International Settlements](#), a bearer- (also known as token-) based instrument is better equipped to address privacy concerns than an account-based system. This would also translate into greater benefits for the EU digital economy.

However, it is crucial that, in the design stage of the digital euro, existing EU GDPR and AML frameworks are taken into account in order to prevent any eventual case of data breach or loss (because even bearer-based instruments can be susceptible to illicit interventions).

It is important that the ECB considers existing Blockchain-based Zero-Knowledge Proof (ZKP) solutions in order to protect consumers willing to use this novel payment method, given the trustworthiness of Blockchain technology.

ZKP can essentially function as a “notary”, which significantly reduces transaction costs and increases transparency when investigating potential money laundering. ZKP assigns cryptographic codes to users over a long period of time, meaning that Customer Due Diligence (CDD) does not need to be conducted by each institution separately. This is both cost-effective and secure since personal information is prevented from being spread across multiple institutions. However, if a transaction is suspicious, law enforcement can be granted access to the identities behind the codes quickly and seamlessly, providing an extra layer of protection for the EU citizen, thus increasing trust and ultimately boosting the European digital economy.

QUESTION IO. WHAT USE CASES IN YOUR SECTOR WOULD YOU SEE FOR A DIGITAL EURO?

Private stablecoins have an ever-expanding set of use cases. Means of exchange is one of them, and others include interoperability between different crypto-asset platforms and protocols or as risk-management tool for market volatility.

The Digital Euro use cases would be only focused on means of exchange, and for these it is best to think where Digital Euro has a unique proposition - in the areas of programmability (which e-money do not have), in the areas of immutability, potentially efficiencies in cost and transaction times that can be created via the DLT technology.

Advanced privacy protection techniques can also open use cases for Digital Euro. If the ECB collaborates with private sector experts in the digital asset space when developing the functionalities, design and use cases of the digital euro, it would encourage innovation and competition in the existing marketplace.

The digital euro, as a digital asset, could be immensely adaptable to changing conditions and climates due to its code-based structure which allows it to be constantly improved upon. The digital euro could allow for international usability which would facilitate cross-border transactions and improve the operation of payments within the eurozone. The digital euro should be subject to the same safeguards as the euro when it comes to monetary policy.

However, if the Digital Euro is not built with innovation capacity, if it is not commercially self-sustainable, and without an optimal interoperability to drive its ease of adoption, the use cases are limited.

QUESTION II. TO ACHIEVE THE DIGITAL EURO OBJECTIVES, HOW IMPORTANT DO YOU CONSIDER IT IS THAT A PAYER ALWAYS HAS THE OPTION TO PAY WITH A DIGITAL EURO AS A FORM OF CURRENCY HAVING LEGAL TENDER STATUS?

DCGG considers the payer always having the option to pay with a digital euro as a form of currency with legal tender status very important. Giving the EU payer the freedom to choose to make purchases and transact with the ‘digital alternative’ of the Euro is absolutely essential. The digital euro, as a stablecoin, would be accessible to all, and it is important that the infrastructure that the digital euro is based on allows

for DLT capabilities and interoperability for private stablecoins is an important aspect of consumer choice. Giving the digital euro legal tender status would legitimize the acceptance infrastructure for stablecoins and in turn increase access to them.

Furthermore, stablecoins solve a wide variety of payments-related issues ranging from privacy to making international transactions and participation in P2P financing marketplaces that are otherwise difficult to address. So, making them interoperable with the digital euro would fill the gaps for this aspect of the payments system.

Giving the EU payer the freedom to choose this kind of option will thus significantly improve the functioning of the EU payment sector and address existing gaps.

QUESTION 33. WHAT DO YOU THINK THE IMPACTS OF A DIGITAL EURO WOULD BE ON THE BUSINESS OF PROVIDERS OF PAYMENT SERVICES AND CRYPTO-ASSET SERVICES?

	Positive impacts/challenges	Negative impacts/challenges
Crypto-asset service providers	<p>Crypto markets would become more mainstream with CBDC implementation</p> <p>Increased competitiveness when interoperable with other stablecoins</p>	<p>Lack of interoperability will drive businesses out of Europe</p> <p>Lack of consumer choice when not interoperable</p>

Positive impacts:

- 1) Crypto markets would become more mainstream with CBDC implementation, allowing for diversification and higher and more positive engagement of institutional stakeholders with the industry.
- 2) Increased competitiveness when interoperable with other stablecoins - driving businesses to the EU, more motivation to constantly improve upon existing models in the digital asset space.

Negative impacts:

- 1) No interoperability. If the digital euro does not allow for interoperability with other stablecoins, this would dis-incentivise private stablecoin issuers from entering the EU market, resulting in decreased innovation in the space and inefficient transactions and end user solutions.
- 2) Negative impact: If the digital euro is not interoperable, as an initiative it will be unable to promote consumer choice amongst preferred methods of payment instruments and thus operate at limited capacity.

QUESTION 34. HOW IMPORTANT WOULD IT BE TO LIMIT THE STORE OF VALUE FUNCTION OF THE DIGITAL EURO BY, INTRODUCING HOLDING CAPS, LIMITATIONS TO TRANSACTIONS, OR DIFFERENT INTEREST AND/OR FEES DISINCENTIVES ON LARGE HOLDINGS?

For financial stability purposes (e.g., to prevent bank runs in crisis situations) - Neutral

To prevent that the digital euro structurally disintermediates credit institutions (e.g., large conversion of bank deposits to digital euro) - Neutral

Other - To prevent the digital Euro from challenging banks' intermediation capacity and affecting risk-free interest rates - Very important

One of the main risks to financial stability that the digital euro could pose is bank disintermediation. A digital euro would open up the possibility for EU citizens and actors to hold money directly with the central bank as an alternative to holding euros through a commercial bank. It may be the case that it is perceived that it is safer to hold digital euros with the central bank because it is more trustworthy than commercial banks which could result in a flight to the digital euro. This could take the form of bank runs where a significant number of people move all of their deposits to digital euros, thus creating liquidity issues and financial instability in the banking system. To reduce this potential risk, a limit, whether it be a hard limit or done through a tiered remuneration system, would prevent the risk of bank disintermediation. Further assessments can be done after the digital euro is launched on this issue, but starting off by launching a digital euro that has a holding limit would mitigate any unnecessary risks in this area.

QUESTION 37. WHAT ARE THE RISKS AND IMPACT ON CREDIT INSTITUTIONS OF THE NON-ISSUANCE OF A DIGITAL EURO, FOR EXAMPLE IN THE SCENARIO OF A SUCCESSFUL STABLECOIN IN THE EU?

The biggest risk of not issuing a digital euro would be the competitive disadvantage that it would put the EU in compared to other countries that would choose to develop their own CBDC. After the COVID pandemic, we have seen a large shift in payments from cash to digital in many countries, and there will be a point where that shift will become significant across the EU. Therefore, if the EU does not choose to launch its own CBDC now, then it will eventually fall behind other countries in leading on digital innovation. A digital euro is important and necessary for the future of the EU's economy and if one is issued later rather than sooner, then the EU will be in less control of the design because other countries will have already laid the groundwork on design.

In terms of the reason for non-issuance being that there is a successful stablecoin used across the EU, we do not see that as a possibility. We do indeed expect that there will be significantly successful stablecoins in the EU, but as we have previously stated, the digital euro is not a replacement for stablecoins or vice versa. There is no plausible situation where a digital euro could not exist because one stablecoin is universally used across the EU. Stablecoins and a digital euro address different niches in the market, and while there is some overlap, they are not one-to-one interchangeable. This is why interoperability between private stablecoins and a digital euro is so important, because both technologies play an important part in the future of the EU's economy.

QUESTION 38. HOW WOULD A RETAIL DIGITAL EURO WITHOUT ANY HOLDING LIMITS OR DISINCENTIVES FOR STORE OF VALUE FUNCTION IMPACT THE FOLLOWING ASPECTS OF THE EU PAYMENT SERVICE/ CRYPTO-ASSET SERVICE PROVIDERS (EXCLUDING CREDIT INSTITUTIONS)?

Volume (value) of retail deposits – Significant increase

Volume (value) of corporate deposits – Significant increase

Liquidity / bank run risk – Significant increase

Volume (value) of new credit provision – Significant increase

Ability to perform anti money laundering (AML) and other compliance obligations – Significant increase

Costs due to operational risk in retail payments – Slight increase

DCGG would at least expect there to be a high volume of retail and corporate deposits moving from commercial deposits to the digital euro that could result in liquidity and financial stability concerns in the banking sector.

Additionally, the impacts of a digital euro without a holding limit would be similar regardless if it was a bearer-based or account-based instrument. The main difference would likely be that in an account-based system, banks would still have an opportunity to play a role if the system is intermediated. Regardless of the instrument type, a digital euro should be compatible with DLT and interoperable with private stablecoins in the underlying infrastructure.

QUESTION 39. WHERE COULD DULY LICENSED FINANCIAL INTERMEDIARIES OFFER VALUE IN THE DISTRIBUTION OF THE DIGITAL EURO?

Experience in onboarding of customers – Very significant value

Experience in Know Your Customer (KYC) and AML checks - Very significant value

Efficient transaction verification and execution - Very significant value

Experience in customer management - Very significant value

Developing additional services using the digital euro - Very significant value

Existing IT system for customer, front and back office services that could be adapted to the digital euro - Very significant value

Other – Storage - Very significant value

Additional services, in particular secure storage, is an area where private solutions in the crypto-asset space have excelled. These, and other cyber security solutions, are an essential value add.

Duly licensed financial intermediaries should be an integral part of the Digital Euro launch as well as evolution. To take the listed activities in turn:

- Onboarding: EU citizens should be able to access the Digital Euro with ease, if it is to have any demand. The private sector is well positioned to innovate around the user journey, while safeguarding against AML risks. Importantly, onboarding innovation can resolve the instances of financial exclusion which still exist in Europe.

- KYC and AML checks: not only is the private sector well positioned to perform KYC / AML checks in the process of onboarding, it is also far better equipped to use advanced analytics and blockchain-enabled solutions in these processes.

- Transaction Verification and Execution: crypto-asset service providers, should the Digital Euro share functionalities with other crypto-assets, are the most experienced market participant to verify and execute such transactions.

- Customer management: One use case for the private sector is to ensure solutions are available for customer management across means of payment, allowing consumers and merchants to access an aggregated view of their transactions.

- Additional services: Additional services, in particular secure storage, is an area where private solutions in the crypto-asset space have excelled. These, and other cyber security solutions, are an essential value add.

QUESTION 43. INTERMEDIARIES WILL HAVE TO PERFORM A SERIES OF CONTROLS AND CHECKS ACCORDING TO AML/CFT REQUIREMENTS. IN COMPARISON WITH EXISTING REQUIREMENTS APPLYING TO OTHER MEANS OF PAYMENTS, WHAT WOULD BE THE SPECIFIC CHALLENGES WITH DIGITAL EURO PAYMENTS TO BEST ENSURE PREVENTION AND COMBAT OF MONEY LAUNDERING AND THE FINANCING OF TERRORISM?

For the digital euro to effectively address ML/TF concerns, it is crucial that a sound regulatory framework at the EU-level is developed, and it is especially important that a digital euro would follow the same rules as other payment methods. If the digital euro were subject to a different regime in terms of rules on payments and transfers, then it would create an uneven playing field favoring the use of the digital euro over other options. The goal of a digital euro should be to serve a complementary alternative to all the other existing payment solutions, not to replace them. As such, the digital euro should be subject to the same rules that are laid out in Transfer of Funds Regulation (ToFR), Simply, because a digital euro is issued by a central bank does not mean it is impervious to the same ML/TF and as such, the design of the digital euro should require full AML requirements for any amount that is transferred.

It is important that as a digital asset the digital euro can be compliant with the aforementioned framework, and this entails that regulatory clarity is key. Policymakers should aim to apply a regulatory framework to the digital euro that takes into account its design and functionalities as a stablecoin, and provide

appropriate guidance in order not to impair the benefits of the digital euro, and overall innovation in the market.

Existing proposals on the new AML package should take these developments into account and consider the constantly changing nature of the digital assets industry. With an appropriate regulatory framework, digital euro payments would not be as susceptible to ML/TF as they would be with severe regulatory gaps and unclear reporting requirements from the outset.

QUESTION 48. SHOULD THE CENTRAL BANK BE ABLE TO ACCESS PERSONAL DATA FOR THE PURPOSES LISTED BELOW?

Payment settlement services – No

Operational resilience/security risk assessment and mitigation purposes - Yes

AML/CFT – No

Fraud – Yes

The central bank should be able to access personal data in cases of risk-related situations only (security, fraud, etc.), where technology does not offer other possibilities (yet). However, central banks' capacity to collect the data of EU citizens should only be limited for these purposes. This would mean that central banks could only access payment data related specifically to the suspicious transactions and the basic information that was provided via the onboarding process only. This would ensure that the digital euro system preserves the privacy of the individuals partaking in transactions in cases where there's no risk.

Whether the digital euro is designed as an account-based system or as a bearer instrument, the settlement for a digital euro should include blockchain functionality. This technology allows for automatic, transparent and immutable settlement, without the need of central bank intervention in every transaction (which is costly for the central bank itself in terms of hours and personnel), and it would allow for further innovations of the technology.

For AML purposes, It is also important that the use of innovative technologies like Zero-Knowledge Proof (ZKP) can be used to align the digital euro with AML/KYC/CFT requirements whilst preserving user privacy. ZKP is an advanced cryptographic technique that allows any piece of information to be verified by a trusted counterparty. A short cryptographic proof is then provided which can then be re-verified at any time at a low cost without the verifier needing to maintain custody of the underlying information or documents. This mechanism guarantees transparency and data protection compliance for digital euro users. Incorporation of ZKP by a digital euro would allow for major opportunities in new developments and innovation from these types of technologies.

QUESTION 50. HOW DESIRABLE WOULD IT BE THAT THE DIGITAL EURO IS AVAILABLE FOR THE FOLLOWING USERS AND USE CASES?

Euro area (EA) residents and intra EA payments - Neutral

Non-resident visitors to the EA (tourism dimension) – Very desirable

Selected non-EA residents for trade purposes with third countries – Very desirable

All international retail transactions with third countries without limits on residency and geography of transactions (trade dimension) – Very desirable

Possibly, the international use of the Digital Euro is more important than its domestic use cases, because it creates an opportunity for a global CBDC economy. It will also create a new market for private sector solutions which can enable these cross-border / cross-token transfers and exchanges. Allowing for the digital euro to be used in the dimensions of tourism and trade on an international scale will highlight the benefits that its interoperability can bring to the EU's economic and monetary growth.

As stablecoins are a global phenomenon, there will inevitably be tourists to the EU that want to use their tokens to pay for things. Having interoperability with the digital euro will mean that these tourists can have the option to exchange their tokens for digital euros to use while visiting and traveling. Additionally, with an acceptance infrastructure that can be used both for the digital euro and private stablecoins, EU Member States can be more competitive with payment options making it easier for tourists who want to pay with stablecoins or other relevant tokens. This would create more incentives and opportunities to use the digital euro at a larger scale.

This interoperability of the digital euro will make it essential for consolidating geopolitical influence in an increasingly digitized global market. This is important, however, without limits, it would be risky as we have previously stated in our responses to the impact of the digital euro on monetary sovereignty.