

EFA Position on the Digital Euro Regulation

Introduction

The European FinTech Association (EFA) welcomes the Commission's proposal on the Regulation to establish the digital euro. The EFA supports an open and competitive payment landscape. If correctly designed, the digital euro could generate new competitive value chains with potential benefits to consumers and businesses.

High-Level EFA messages:

- The EFA welcomes the Commission's proposal on the legal tender status and mandatory acceptance of the digital euro, as this will enhance uptake and ensure the creation of an interoperable ecosystem.
- The EFA further strongly supports the Commission's proposal to enable PSPs, including non-banks and third-party providers, to offer digital euro payment services to their customers as this will boost the uptake and ensure all EU citizens and businesses will have a convenient, secure, and easy access to digital euro. The EFA further emphasizes that the security and privacy-preserving measures should be technology-neutral and future-proofed to enhance innovation in the payments market.
- The EFA is convinced that the retail Central Bank Digital Currency (CBDC) will increase competition by reducing the operational disparities (e.g. fees) between smaller banks and non-banks which run their payments through the larger market players.
- The EFA observes that the proposal gives the ECB a double role as a market competitor and supervisor of intermediaries and calls for clarifying the separation of these roles to ensure the ECB's entrance to the market will not cause disruptions and create unfair circumstances in the well-functioning and vibrant digital payments market.
- The EFA emphasizes that the digital euro should not be categorized as critical infrastructure in the future designation process regarding the Settlement Finality Directive. This would hamper the uptake of the digital euro by limiting the qualified distributor PSPs. Thus, reducing the convenience for end users.
- The EFA supports the Commission's proposal to set holding limits to digital euro accounts but calls for the European Commission to establish criteria for the European Central Bank (ECB) to determine these limits. It is essential that the holding limit is not set too low, as this would reduce the practicality of the digital euro.

Universal Acceptance and Platform Interoperability

The EFA understands and supports the Commission’s proposal to grant the digital euro a legal tender status, thereby requiring mandatory acceptance for payees. However, we emphasize that in order to ensure a level playing field and also reduce burden on merchants, there should also be a requirement for the payees to support at least one digital payment method, rather than only Digital Euro. This will also encourage the creation of an interoperable ecosystem around the digital euro, which is vital for its wide-scale acceptance in the EU.

This will guarantee interoperability between different digital platforms that could otherwise control payment methods utilized on their platform. Hence, this approach will create a level playing field and ensure merchants always have a reliable and cost-efficient payment method available to sell their products, and consumers are not locked into platforms issuing their own digital currency. Regarding the point-of-sale (POS) integration, the payment could be performed by multiple payment methods, including a PSP proprietary payment or by providing a common standardized mechanism such as a QR Code.

The EFA further emphasizes that the security and privacy-preserving measures should be technology-neutral and future-proofed to enhance innovation in the payments market and to ensure the digital euro can be distributed through the rails, which bring the most value and convenience to the end users. This is especially important, considering the fast pace of technological advancements that are taking place in the digital payments ecosystem.

Competition in the digital payments market

In principle, if designed carefully, the EFA is convinced that the retail CBDC will increase competition by reducing the operational disparities (e.g. fees) between smaller banks and non-banks, which run their payments through the larger market players that are currently able to set the market rules due to their size. Ensuring universal and interoperable access to a digital euro can create an even more competitive ecosystem contributing to the EU’s objectives for the European Retail Payments space. Introducing the digital euro as a safe and efficient payment method available to all would ensure all payment methods would have to compete on pricing and added value at the POS rather than through bespoke deals and incentives to issuers, especially if merchants could choose how to route transactions. The EFA agrees with the pricing structure proposed by the European Commission, where, like cash, the digital euro should be free of charge for consumers, to enhance uptake, the PSPs must be recognized for their service.

Furthermore, the EFA observes that, among others, the proposal gives the ECB a double role as a market competitor and supervisor of intermediaries. It is of utmost importance to ensure that the ECB’s role as a payment service provider will not cause disruptions and create unfair circumstances in the well-functioning and vibrant digital payments market. Thus, as the ECB would hold several roles, of which some are contradictory, the EFA calls for clarifying the separation of these roles to ensure fair market conditions.

Access to Infrastructure

The EFA believes the infrastructure that will underpin the digital euro will be of fundamental significance. Against this backdrop, it becomes important that the model used for the digital euro

ensures access of FinTechs to the underlying infrastructure. Thus, we emphasise that the digital euro should not be categorized as critical infrastructure, in the future designation process regarding the Settlement Finality Directive – at least until the Directive is amended to provide a legal basis for direct access by PSD-licensed operators. This would hamper the uptake of the digital euro by limiting the qualified distributor PSPs. Thus, reducing the convenience for end users.

We are convinced that for the digital euro to realize its true potential, it needs to give all actors (PSPs, FinTechs etc.) the ability to access digital euro funds freely in order for money exchanges to be the best experience possible for customers. In this context, the EFA would be in favour of a retail digital euro based on a two-tier model as it would allow European citizens and businesses direct access to it.

Under the two-tier model for the digital euro PSPs, including non-banks and third-party providers, would act as intermediaries, receiving access to the digital euro from the central bank. As Fintech solutions are widely used by many consumers, this would heavily facilitate the distribution of the digital euro to consumers and businesses, also driving acceptance and trust. Such a model would also lead to more efficient, seamless, and cheaper services to consumers. In parallel, ensuring equal access to market participants would also drive innovation and keep a level playing field in the EU single market.

The EFA fully agrees with the Commission’s proposal to limit the amount of funds for each digital euro account to avoid the confluence of significant capital to digital euro accounts and to mitigate the possibility of digital euro being used for ML/TF in the EU. Moreover, this is necessary to ensure that the digital euro will be an available choice for consumers on par with cash at point of sale (POS). However, we regret to observe that the holding limits are purely left for the ECB to determine. We understand that such limits may need to be adapted in a prompt manner, and the ECB is thus the best suited for determining them. However, the EFA is convinced that the holding limits should be determined based on Union-wide legal criteria. Thus, we call for a clause to be added in the Regulation on the Digital Euro, requiring the Commission to set criteria for the ECB to determine holding limits in a Delegated Act.

About us:

The European FinTech Association (EFA) is a not-for-profit organization representing leading FinTech companies of all sizes from across the EU. It brings together a diverse group of 35+ FinTech providers ranging from payments, to lending, banking, robo-advice, investment as well as software-as-a-service for the finance sector, with a clear focus on enabling a single market for digital financial services.

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