**AGE written feedback on the analysis of options for the distribution model for a digital euro.**

**Q1 Potential drawbacks of the prioritised scheme approach :** the analysis of the pros & cons of the various distribution options shows that the end-to-end solution would be the best approach to achieve all ECB key objectives outlined in their recent blog, including an homogenous end-user experience and a wide spread distribution. As said during the last technical meeting, the end-to-end option is the only option that would enable consumers to identify the digital euro as public digital money (as opposed to the private money they have on their bank accounts or e-wallets).
As rightly highlighted in the ECB recent blog, a key issue that the digital euro project seeks to tackle is the fact that today digital private sector solutions tend to be dominated by a handful of providers whose dominance could increase the risk of market-abusive behaviour by companies mainly headquartered outside the EU. If the payment scheme option is favoured as easier and faster to implement because it would be built on the existing private money channels/standards and actors, we are concerned that this may expose our financial system to greater instability and external risks on which we would have no control. In addition, it will be difficult for consumers to understand how private financial services providers could promote and distribute the new public digital money instrument envisaged for the euro area without exacerbating competition with their own - more lucrative -digital payments instruments. This may also increase private actors' pressure to move to a cashless economy and run against the ECB objective of ensuring that people through the euro area continue to have access to central bank money in an inclusive and complementary way through a digital euro and a solid cash infrastructure. The distribution model should also be designed in such way as to ensure that both cash and digital euro can serve as backup solution in case of disruption of private actors payments instruments.
Finally if a payment scheme approach relying heavily on supervised private actors is retained, it should be developed in such way as to be possibly adapted or turned into an end-to-end solution if its implementation proves to be failing on some key objectives identified by the ECB.

**Q2 - Which scheme elements should be covered by the scheme and which should be left to the market :** to ensure a harmonised end-user experience across the euro area (and support its future extension to the EU MS that are not in the euro area) the following elements should be covered by the scheme:

- all back office standards/rules including messaging standards to ensure interoperability across the euro area and transparency for end-users,
- harmonised requirements for end-user interface design to facilitate cross-border experience
- common accessibility standards to ensure access for all and inclusion (currently under development and to be applied in all EU MS by June 2025)
- common rules for the branding developed under the supervision of the Eurosystem (ESCB when access to the digital euro would be extended to EU MS outside the euro area).

**Q3 : How could a balance between public and private cooperation be acheived under a payment scheme :** it will be difficult if the designed payment scheme relies too much on private actors (cf. answer to Q1). It will be in particular difficult to ensure that consumers/tax payers are not going to be directly or indirectly paying the bill to make the digital euro at least as lucrative for private actors as their own private digital payments instruments. This is another reason why we would find the end-to-end solution a better option, unless the payment scheme option is developed as an independent « public money » payment scheme, limiting the role of supervised intermediaries, and ensuring that all stakeholders; including consumers, are adequately represented in the digital euro governance framework.

**BEUC response to ERPB written procedure on digital euro following ERPB technical session of 5th July 2022**

## Preliminary remarks

Before to answer to the three questions related to the project of the digital euro scheme, some comments on the BEUC perspective as regard the functioning of the digital euro.

How we see the functioning of the digital euro:

1. The consumer opens a digital euro account
2. the consumer will transfer an amount in commercial money to the digital euro account managed by an agreed intermediary
3. the consumer loads their digital euros onto an instrument (mobile, computer, card, etc.).
4. A payment is the transfer of these digital euros from the payer's instrument to the payee's instrument.
5. the consumer can transfer the received euro digital to his or her account hold by the agreed intermediary
6. the digital euros are reconverted in commercial private money.

In the functioning of this process, it is necessary to define for each step the rules of the game. For example, a consumer can have only one account. No transfer between digital euro accounts should be possible. The amount of digital euros per account should be limited to avoid digital money hoarding. Several of these points have been mentioned in our previous documents.

As indicated in the note posted on the ECB website beginning of July, ," *A digital euro issued by the Eurosystem would provide a monetary anchor in the digital age, serving as a public good*" And the document add it will take some time to define the final design but three principles are already clear, the digital euro must provide benefit to the users, privacy is of utmost importance and also the issue of financial inclusion.

In a blog post by the ECB president Lagarde and Board member Panetta published on the 13 July the three principles are confirmed adding simply that the details of the design will be known in the autumn 2023.

## The meeting

The main subject of the meeting was the presentation of the Eurosystem's distribution analysis. Four alternatives were presented.

- Only issuance by the Eurosystem
- An open access solution for example through an Application Programming Interface (API)
- Create a scheme (such a card scheme or a SEPA scheme)
- An end-to-end solution: fully fledged from back end to front end.

For the two first options it was indicated that it will give too much importance to market participants with the effect of the fragmentation of the market (lack of interoperability)

The third option (scheme) is the choice of the Eurosystem, it is why the questions are related to the option scheme

The fourth option is not chosen, one argument being that it will reduce the role of supervised intermediaries. As it will be explain below, BEUC is not convinced by this criticism, in particular if "supervised intermediaries " means only "banks".

It was also indicated that the decision to build the distribution on a scheme (third option) will be taken in autumn 2022; which is quite soon.

## 1 What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?

As stated in the two ECB documents mentioned above, the digital euro should be a public good, as is the physical euro in the form of coins and notes. It is therefore in the light of the public good principle that it is necessary to analyse what a scheme with a public good mission could be, in comparison with the distribution and use of cash.

Banks have a monopoly on the distribution of cash, except for the cashback procedure by retailers, as explained in the report on cash adopted by the ERPB. For years the BEUC has been criticising the various measures taken by the banking world which have the effect of making it increasingly difficult for consumers to access cash. Among these measures are the closure of branches, the closure of ATMs, and the fees charged for using ATMs first in other banks and then in the same network. The new ELTEG report recently published go in the same direction.

Answering a question from BEUC representative, the speaker indicated that the adherence to the scheme will be mandatory for all regulated Payment Service Providers (PSPs). This answer is quite strange as PSPs are all the stakeholders that, in accordance with article 4.3 of PSD2 provide the payment services listed in Annex 1 of this directive. As some of these stakeholders cannot hold funds, it is only credit institutions (banks) and eMoney institutions that will be able to distribute the digital euro.

## 2 In terms of scope, which scheme elements (e.g. messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?

To determine what is relevant to the functioning of the scheme, it is necessary to analyse the process step by step according to the 6 steps described above.

### First step opening of an account.

The consumer can open an account in any of the scheme's member. But what is the difference for the consumer between a private payment account and the digital euro account? As BEUC we already explained that the digital euro should replicate cash features. It will not be the interest of the bank to promote the digital euro to the detriment of the commercial money. Will the digital account be opened in the bank where the consumer has its payment account? Will the consumer have the possibility to open the digital account in another scheme's member? For privacy reasons, consumers should prefer not to have the two accounts in the same institution.

An important question is how much the account will cost to open. Today almost all payments made by consumers in commercial money are free of charge per transaction, but the consumer must pay fees for the management of the payment account and for the payment instruments if provided by the bank. So, what will be the fees for opening a digital euro account?

One of the important issues related to costs is that of financial inclusion. One of the three principles put forward by the ECB is precisely financial inclusion. If banks behave in the same way for digital euro as they do for payment accounts, the objective of financial inclusion will never be achieved. It would therefore be necessary for approved intermediaries to be not only banks but also national central banks or subsidiaries of these central banks with which consumers could open such accounts.

### Second step: conversion of private money into public money.

Procedures must be put in place for the conversion of private money into public money. The consumer requests that a certain amount be transferred to his or her digital euro account. This should be done under close supervision of the ECB.  If the bank holds both the payment account and the digital euro account, it will be faced with a huge conflict of interest. It is much more interesting for the bank if the consumer continues to make traditional payments and does not use the digital euro. This is one of the reasons why BEUC is not convinced that the distribution of digital euro only by credit and e-money institutions is the right solution.

Of course, no branding by the issuing entity. There is no branding for the physical cash, it should be the same for the digital cash. A single denomination and a logo (d€) should be chosen by the authorities and apply everywhere for the digital euro

### Third step: loading on an instrument

The next step is to download the digital euros (tokens or electronic currency units) from the account onto the instrument held by the consumer. This instrument could be a smart card, a phone or a computer. For each of these e instruments, there are security issues related to the different nature of these instruments. The cards remain the property of the issuer, but the question is whether the consumer should have two cards or one.

The consumer has only one phone. The question is in which wallet the digital euros will be stored. In a wallet that also accepts other payment applications, which presents privacy risks, or in a wallet dedicated solely to the digital euro?

For the download and storage of tokens on the consumer's computer, security aspects are particularly important as shown by various frauds that have taken place involving the theft of crypto assets. It is therefore necessary to provide efficient mechanisms allowing the consumer to pay on the internet without the risk of having his digital euros stolen by a fraudster having taken control of his computer.

For these three situations of downloading digital euros, it is obvious that these operations must be free of charge for the consumer.

### Fourth step: the payment

As mentioned in the previous discussions, in the first instance the digital euro should allow three types of payment, consumer to business in shops, consumer to business on the internet and consumer to consumer (P2P). The payment is the transfer of these digital euros from the payer's instrument to the payee's instrument. As for cash, it is an instant payment.

### Fifth step: transfer from the payment instrument to the account

When consumers want to convert their digital euros back into commercial currency, they have to send them back to their account holder. In technical terms, this is called acquiring a transaction. It is well known that in the operation of schemes, it is on the acquisition side that the financial income is made payments are free of charge for the consumers but the merchants pay important fees, then again distributed between banks by the mechanism of Interchange (fee paid by the acquiring bank to the issuing bank) at least for card schemes. There is no more interchange for credit transfers and direct debits.

Two important questions arise: When a merchant receiving large amounts of digital euro, knowing that the amount he can hold is limited, what will be the pricing? Consumers who will make many P2P transactions will also want to convert their digital euros: at what cost for them?

### Sixth step: conversion in private money

Same question as for step two. Which fees for the conversion?.

### Conclusion

In conclusion to this second question, BEUC considers that the alternative is not between the provisions which come under the scheme and those which come under the market. Many of the measures necessary for the use of the digital euro should come under legislation, not limited to the legal tender issue. Without addressing the question of governance here, we can note that it is the members of the scheme who determine the rules. If only the PSPs are members of the scheme, the operating rules will be in their favour, to the detriment of the users, whether they are consumers or merchants. In addition, schemes have very weak means against members which are not implementing the rules.

## 3 How could the balance between public and private cooperation be achieved under a payment scheme approach?

As already mentioned, BEUC is opposed to the idea that the distribution of the digital euro should be a new monopoly given to credit and electronic money institutions. If a scheme is to be created, it must also be able to accommodate different institutions, for example subsidiaries of central banks. Of course, the ECB itself cannot open an account for every European consumer, but using seigniorage resources, national central banks could do so.

Another very important dimension will be the governance of the scheme. Today no scheme includes consumer representatives in its governance. If the digital euro is truly a public good as the ECB communication indicates, consumer representation must be ensured at the governance level. From this point of view, it is quite surprising to read in the minutes of the 5th MAG meeting that a sub-group discussed the added value of the digital euro for consumers. It says, "From the consumer's perspective,". Considering that there are no consumer representatives in the MAG and that it is mainly composed of bank experts and lobbyists, the banks know better than consumers what the interests of consumers are.

# Distribution model options for a digital euro

## EACB feedback to ECB

22/07/2022

**About the EACB:**
The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 27 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 2,700 locally operating banks and 52,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 214 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 85 million members and 705,000 employees and have a total average market share of about 20%.

For further details, please visit www.eacb.coop



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The EACB welcomes the opportunity to provide input to the ECB on distribution model options for a digital euro following the ERPB technical session on 5 July 2022.

The Eurosystem assesses the following distribution model options for a digital euro:

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

The EACB's preliminary views on the consultation questions are presented below. In order to provide more detailed and in-depth comments more time and more precise information – in particular on the expected role of intermediaries – would be needed.

***Key considerations***

- In our view, from the four distribution options presented by the ECB at least the last three are scheme-based approaches. For "open access", "payment scheme" and an "end-to-end solution" a contractual basis is needed. This should be clarified by the ECB.
- The wording "payment scheme" is misleading because the digital euro should be the raw material (platform) on which the market driven solutions/schemes with added values could be built. Especially in e-commerce a digital euro payment would still be a prefunded payment and its success would depend on added values such as buyer protection, etc. which should not be part of the digital euro scheme.
- Since the digital euro by the ECB should be the raw material for added value payment solutions, the most suitable way forward for a scheme would be to limit it to the functional requirements similar to the approach taken with the EPC's SEPA payment schemes. This includes also some minimal principles for user experience, which could be specified within the digital euro scheme as a baseline.
- If the full user interface is defined by the ECB, this would conflict with the ECB objective of offering room for innovation by private actors.
- A scheme developed by the EPC would be a good option. This would directly include established governance structures and rich experience in scheme development. This would also be in line with the fact that the ECB is responsible for oversight of payment schemes.

***Question 1. What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?***

- The extensive scope of a "payment scheme" approach as presented by the ECB would lead to a less innovative system. So the scheme approach prioritised by the ECB is going too far.
- Also, there should be a distinction made between business model (which should be left to the market) and compensation for tasks needed from a digital euro system perspective that would be performed by banks (like KYC and registering the wallets) and would lead to an unbalanced situation. An important question in this regard is which functions should be covered by the EUDIW and how do the respective timelines fit together?

- The "open access" approach would not lead to the needed interoperability, thus basic functionality would be needed for every offering bank (issuer / wallet provider) and providers which would offer acceptance services for merchants, but at the same time need to leave room for further innovation, including additional features in user interface for innovative and flexible user experience.
- As a result, in our view, the ideal scheme would be between the "open access scheme" and the "payment scheme".

***Question 2: In terms of scope, which scheme elements (e.g. messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?***

- The scheme (better named as "digital euro scheme") should define the different roles of the parties involved, like wallet issuer (with requirements for at least one common payment rail to assist in technological level), commercial banks (for distributing and taking back the digital euro), acquirer (with requirements for at least one common payment rail), and design / brand principles, while including the digital euro in a wallet or existing scheme as a new kind of money.
- We believe that a key driver for a working digital euro scheme will be the right scope of the scheme which should cover:
  - some core principles and functionalities, including basic technological specifications (based on existing common specifications).
  - basic design and minimum requirements for user interface.
  - roles, mandatory requirements for every role at the right level to leave room for innovation.
  - compensation for governmental tasks which would be performed by intermediaries (like KYC and registering the wallets).
- The remuneration for the intermediaries (business model) should be left out the scheme. An example: A digital euro within e-commerce will have low success without additional values like buyer protection. But added values like buyer protection should be left to the market and the payment brand which would include the digital euro payment would need to have its own business case to take the burden of buyer protection, including fraud (not payment fraud, but non-delivery of goods).

***Question 3. How could the balance between public and private cooperation be achieved under a payment scheme approach?***

- The balance could directly be solved with the right scope of the scheme. The ECB should concentrate on issuing the new form of money and the basic functions for "pure digital euro payment", while the private sector should include the new form of money into the existing solutions, would take care of the distribution and acceptance of the digital euro.
- For this to become a reality it is important for the ECB to truly accept the private sector as a partner and to develop the scheme together in partnership.

***Other pending questions:***

- How are existing RTGS from central banks and/or wholesale CBDC fit into the picture and is linked to existing payment schemes?

- How do Visa/MasterCard card schemes, GAFA, PayPal, stablecoins, crypto-assets fit into the overall picture? Should they be embedded/prevented/made interoperable with the digital euro?
- For working together on a scheme approach, answers to several questions related to the digital euro are needed, such as the technological base (account-based or token-based), settlement requirements, finality, limitations and steering parameters.
- Which privacy design features like zero knowledge proofs[1] (subset: zk-SNARK) or ring signatures are currently considered and analysed in the architecture especially for lower transaction amounts?

[1] Zero-knowledge proofs are a set of techniques in cryptography to prove mathematically that one is in possession of information without revealing it. With the help of collectively signed transactions in ring signatures individual transactions can be hidden.

Brussels, 25 July 2022

# ERPB written procedure on digital euro distribution model - EBF response

25 July 2022

**EBF response to ERPB Written Procedure on digital euro distribution model**

## General remarks

The EBF welcomes the opportunity to contribute to the ERPB written procedure regarding the distribution model for a digital euro. It should be noted that the following response is conveying preliminary considerations only, as the scarcity of details on the scoping of the digital euro project, as well as on the interdependence of its different design aspects, makes it extremely difficult to form definitive views at this stage.

As the digital euro ambition is complex and covers many aspects, we prefer a model with connected scheme layers. The approach should allow for evolution and expansion over time, leveraging the already existing efforts of market participants at different levels of the solution. Such an approach would leave room for flexibility and innovation by market operators. Successful payment schemes are composed of multiple layers, and both public and private sectors are needed depending on the layer in order for the digital euro to achieve its goals.

An important issue that needs to be addressed is the business model associated with digital euro distribution and how this could be potentially facilitated through a scheme. Even if there would be no per transaction fees for consumers, participating private companies (acquirers, sending bank, receiving bank), should be able to receive fees for compensation of their services in the scheme.

## 1. What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?

With an appropriate design, a scheme for the distribution of the digital euro should avoid the following adverse effects:

- **Crowding-out competition:** the scope and depth of a digital euro scheme could reach deep into the commercial sphere and therefore significantly influence the competitive environment. The resulting market position of a digital euro could raise the risk of crowding out private initiatives and jeopardize the functioning of a crucial area of the digital payments market.

- **Stifling innovation:** Limiting the private sector's contribution only to the user management layer would have severe repercussions on innovation in payments, as the resulting scheme may not take sufficiently into account the evolution of market trends.

- **Misallocation of resources**: Building and operating a payment scheme (traditionally done by the private sector) is a complex endeavour, involving numerous aspects depending on its scope (such as branding, marketing, dispute settlement, etc.) which seem far from a central bank's mandate and expertise. A dedicated scheme manager that can leverage long relevant experience would ensure that the scheme development does not turn into a time-consuming and cost-intensive task, with consequent delays in market deployment.

To overcome these adverse effects, the scheme should be designed around the following principles:

- **Clearly defining the scope:**
    - The scheme should be designed at different levels, as discussed more in detail under question 2.
    - The first level of the scheme should define a minimum set of rules across all scheme participants, i.e. regulated intermediaries, to ensure consistent and harmonised minimal/default product and product user experience when it comes to issuing and acceptance, in addition to the settlement layer. This should leave room for competition to design and operate payment solutions based on the digital euro.
    - The question of synergies and a possible interoperability with existing infrastructures (i.e. SEPA) is a core question which needs to be addressed, as leveraging them could boost acceptance and adoption by relevant stakeholders, simplify processes and avoid inefficient, duplicated costs.

- **Setting up the right governance**:
    - The scheme management should be performed in close collaboration with scheme participants; it could leverage a 'partnership' with an existing and well recognized body (i.e. the European Payment Council) as the scheme manager.
    - Scheme management should have clear pre-defined rules and decision-making process that guarantees that market participants have an effective role in the decision-making.
    - The scheme should also cater for representatives of end-users. Including them enables scalability, security and especially adoption, since it mitigates the risk of a design not meeting public expectations.

**2. In terms of scope, which scheme elements (e.g. messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?**

We believe that the scheme should be articulated in three separate but interconnected levels:

1) The onboarding, issuing, convertibility, and maintenance of the digital euro, which should be the responsibility of the ECB/Eurosystem, with participation of the industry.
2) The rules on the payments and all related aspects, which should be an industry-led initiative, with the participation of the ECB/Eurosystem (and other relevant authorities). It should be assessed if synergies with existing payment schemes can be exploited (e.g. SEPA payment schemes).
3) On top of the above two basic scheme layers, the private sector should be able to build schemes with innovative, value-added services.

It goes without saying that any voluntary cooperation between competitors and the related establishment of standards will be done in full compliance with relevant competition law.

We believe that that the scheme's role should be to set the technical standards that would ensure the interoperability of various payment solutions, which could then be developed and operated by the private sector (including through schemes of value-added services) in compliance with the scheme.

Building on such foundations, scheme elements should include:

- Messaging flows (which may vary depending on technology but essentially are related to which information elements shall be present and should be conveyed between which actors) for the various use cases which would be covered by a digital euro
- Messaging and data standards (both for interaction between intermediaries and vis-à-vis the Eurosystem infrastructure), including standards to enable the expected offline capacity of the digital euro
- Shared Service Level Agreement so as to enable same service level for all users
- Security framework (e.g. possible SCA requirements, requirements for consumer front-end) based on existing regulations
- Onboarding and know-your-customer (KYC) processes and procedures
- Minimum requirements in fraud management
- A dispute resolution mechanism for intermediaries that defines the minimum rights and obligations of all parties
- Remuneration framework for intermediaries
- Development of all common product forms, decision on franchise management (granting of memberships and removal of memberships), definition of technology and APIs
- Set-up of the minimum requirements to operate the payments (authorisation and settlement)
- Definition of responsibilities in the system
- For interoperability purposes, certification rules (e.g. for terminals)
- Licencing: the requirements applicable to the operators of the technical components of the scheme and to the institutions distributing the digital euro

We expect that most of the points above would be covered by the industry-led scheme, along clear principles set together with the Eurosystem, however the boundary between the different levels will require further assessment. Also, a number of activities that are critical to the success of a payment scheme (such as consumer education and awareness) are not mentioned above and careful consideration should be given to how responsibility for their definition / execution is allocated between public and private sector entities.

Ample room should be provided to market participants to define a commercial model encompassing the following options:

- Design choices regarding consumer front-end
- Competitive and contractual sphere between intermediaries and users
- Prices, branding (with potentially minimum common criteria in order to have a similar look and feel for all digital euro-based products), distribution and user interface.

**3. How could the balance between public and private cooperation be achieved under a payment scheme approach?**

The decision to introduce a retail digital euro would be based on a strategic political motivation that faces short- to mid-term economic trade-offs (in particular for private market participants). A close public-private cooperation should try to manage the resulting discrepancies and mitigate or compensate for adverse commercial effects. Upfront and ongoing scheme member and stakeholder involvement is key to ensure lasting market relevance, support and adoption.

As explained above, the scheme should be articulated in different levels that all involve both the ECB/Eurosystem and the industry. This would ensure that fundamental aspects of the digital euro are defined at central bank level, aspects relevant to the interbank space at scheme level (e.g.  EPC-led), and commercial aspects are left to individual market participants or to those market participants that would gather into value-added services schemes. This would ensure harmonised outcomes, while allowing for innovation and competition.

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**About EBF**

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure, and inclusive financial ecosystem, and to a flourishing society where financing is available to

# *Distribution model for a digital euro – EDPIA feedback to the ECB following the 2nd ERPB technical session on the digital euro held on 05/07/2022*

**25 July 2022**

## 1. What would be the potential drawback of the prioritized scheme approach and how could they be overcome?

The prioritized scheme approach would allow to reach a fine balance between the roles of public and private sectors (compared to other options) and to provide a unifying layer for European payments, fostering its sovereignty and channelling market competition. EDPIA therefore welcomes the prioritization of this option.

As often, the devil is in the detail, and the success of meeting the scheme objectives will depend on how the concept is applied on the field. In this regard, EDPIA wants to highlight a few points to consider, rather than drawbacks.

**Governance**

The governance framework shall be formalized and represent the whole market, including consumers, merchants, PSPs and banks. Having this representativity is essential, and it would be important to find ways to reach a consensus.

The EPC governance model could be taken as a good working basis, with its different hierarchical layers mixing public, private and NGO actors, a governing body (board) on top, a scheme management board and various contributing groups, committees and taskforces.

**Best use of each sectors expertise**

While adopting the right governance structure is a key factor to the scheme's success, another salient aspect is the definition of roles and responsibilities. A new payment scheme could disrupt the current market equilibrium and therefore pose a threat to private sector interests although the latter fully support public policy objectives. It is suggested to delegate to the private sector all those operations where it can make its know-how, assets and network available, while ensuring its sustainability, on the basis of a mutually-agreed business model. On its part, the public sector could ensure that its policy objectives succeed by being part of the decision-making body.

**Retail reach**

It would not be advisable that the public sector steps in the retail market and accesses end-users directly. Instead, this shall be reserved to private companies since it could disrupt healthy competition. That said, a partnership could be considered to offer public-sponsored digital euro services to citizens on specific underserved segments.

**Scheme non-operating costs**

Setting up a new scheme may imply some costs pertaining to the Governance's structure and activities, including the creation and maintenance of a rule book. As the scheme is created at the initiative of the public sector and, given that the digital euro is expected to be free for consumers in its basic form, the public sector may decide to bear these non-operating costs.

**Minimum product constraints**

The scheme specifications may cover end-user products to some extent, to ensure a certain level of quality, branding or security to which products should comply in order to be launched. Such set of rules should however not limit or constrain the scope of features that private companies could implement to differentiate themselves.

As all compliance checks (AML/CFT/KYC) will probably be borne by distributors and represent a cost to them, limiting the product constraints to the minimum may probably be an interesting (partial) trade-off, as this would allow them to be more competitive and gain market share while maximizing chances of scheme adoption.

## 2. In terms of scope, which scheme elements (e.g. messaging standards, requirements for end-user interface design, branding, etc) would you consider need to be covered under the scheme and which ones should be left to the market?

**Scheme**

- Offer building blocks on which private sector and the eco-system can build solutions and integrate the digital euro.
- Provide the scheme's rulebook and enforce compliance with it. This rulebook should cover aspects such as the messaging standards, API specifications, security, fraud thresholds, branding guidelines, acceptable form factors (e.g. smart devices, wearables, IoT, connected cards, biometrics, skin implants, etc) and remuneration rules for intermediaries.
- Ensure compliance with regulatory and ECB-specific requirements (e.g. remuneration, holding limits, etc).
- Manage the scheme's infrastructure, maintenance, evolution, and connectivity/interfaces (including technical specifications for integration).
- Marketing and communication (branding)
- Define the rules of eligibility for partners and suppliers selection

**Market**

- Market operators should be responsible for the front-end design.
- More broadly, they should be responsible for the market products & services reaching consumers and merchants and the end-user experience.
- Customer's onboarding process, including AML/CFT/KYC requirements
- Fraud management and customer support
- Interoperability with other currencies for retail currency exchange purposes

## 3. How could the balance between public and private cooperation be achieved under a payment scheme approach?

The balance between private and public sector involvement is prevalent and the payment scheme approach provides the flexibility to find a common ground where all interests can converge in a new solution that is innovative, market-fit, socially inclusive, aligned with policy objectives and economically viable.

A first element to consider is the representativity of entities within the governance model, at all levels. To ensure that all interests are met including market viability, the private sector should not only be integrated as contributor but should also be represented in the top decisional body of the model (e.g. as member of scheme governing board or similar).

A second cooperation element already described is the segregation of duties, the definition of roles and responsibilities. Public and private contributions should be complementary to realize their joint objective crystalized as the new scheme. While the scheme organization will set the framework, we recommend that private companies have a leading role in the operational domain, while maintaining an effective cooperation with public authorities and more specifically the ECB. Payment processing companies currently excel at operating high-resilience and high-scale transactional infrastructures. These infrastructures could be leveraged to design, build and manage operations of a new cutting-edge scheme platform, especially in those areas where the private sector could add most value. These companies have a long payment experience, benefit from their extensive financial institutions' customers network and have high innovation capacity. These are all assets to make this vision succeed in time, cost, quality and within the existing eco-system. An initial financial public incentive would trigger the required investment necessary for the development of the technical layer, while limiting the risk and time of ROI.

A last point to emphasize for the good collaboration of both sectors is market access: only the private sector may launch digital euro products and services on the market and have a direct user reach (consumers or merchants). As already mentioned in our answer above, the scheme should avoid restraining the competition level playing field by setting constraints on the functional scope of features that digital euro products could embed. Those features may be used as differentiation factors by the private sector to gain a competitive advantage. In some particular cases, some products could be publicly sponsored to address the needs of specific segments of the market or population (e.g. financial inclusion products).

EDPIA therefore recommends that the scheme rules focus on the areas of messaging, security, branding and integration while leaving space for private sector innovation in the end-user experience and operational fields by not being restrictive on the scope of product features or the user journey process. By so-doing, public authorities may concentrate on the control/supervisory function of the service and ensure that policy objectives are fulfilled.

## Subject: Digital Euro: EMA submission to the ECB on the distribution model for a digital euro

**Date:** 25. 07. 2022

## Digital Euro; ECB request for feedback

The ECB hosted a second technical session on the Digital Euro with the European Retail Payments Board (ERPB) on 5 July. Following the meeting the European Central Bank has invited feedback from ERPB members on their analysis of options for the distribution model for a digital euro, in particular the questions on slide 11.

Please find below the response from the Electronic Money Association.

### EMA response

The EMA is a trade body of FinTech, BigTech and technology firms engaging in the provision of alternative digital payment services, including the issuance of e-money for over 20 years. As such, the EMA has a strong interest in the digitalisation of financial services and markets, in the development of digital payment instruments and cryptoassets based on centralised as well as distributed architectures. Our members include leading payments and e-commerce businesses providing online payments, card-based products, electronic marketplaces, and increasingly cryptocurrency exchanges and other cryptocurrency related products and services.

We welcome the opportunity to provide written feedback to the second ERPB technical session, the slide-deck you shared with us and the 3 questions submitted for feedback with the slide-deck.

We found the 5 July ERPB technical session on the 4 different distribution model options useful. We understand that the Eurosystem ("ES") has a clear preference for the "payment scheme" option. We note that in common with other trade associations we had a preference for the "Issuance" or "Open Access" options. An Open Access approach for example could allow the system to more rapidly evolve to emerging requirements. We believe that drawing as much as possible on the existing payment ecosystems, at least initially, will be crucial for the success of the digital euro ("DE") and any subsequent expansion stages. With a view to the ECB's and the Eurosystem's strategic objectives, we believe an initial, swift acceptance of the DE helped by the existing payment ecosystems is paramount even if limited to a smaller range of use cases than aimed at in a medium- to long-term perspective.

We also note that the payment scheme route introduces a number of additional factors that will need to be addressed such as the competing role of a new payment scheme with existing schemes, the pricing model, the cost of creating scheme infrastructure, governance and the role of the ECB as participant in a payment scheme.

Regarding the 3 questions put forward for feedback we note:

1. **What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?**

It is difficult to discuss drawbacks (and advantages) of the prioritised scheme approach without a more in-depth analysis and forecast allowing for a comparison across the 4 different options. As a trade association for regulated payment service providers, our members are used to developing regulatory business plans that include for example a 3-year financial forecast covering both a base case and a stressed scenario, a SWOT type of discussion, and an outline of external dependencies. We assume that this type of work has been developed by the Eurosystem, and urge the ES to consider sharing such data with industry.

The greatest potential drawback will be an opportunity cost. Whilst European PSPs turn their attention and their resources to developing a DE payment scheme that competes with existing systems, the global effort will be focused on new innovative payment technologies and payment systems. We risk falling behind in the payments race and inadvertently making ourselves yet more vulnerable to products and services originating from outside of the Union.

2. **In terms of scope, which scheme elements (e.g. messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?**

As a matter of principle, we do believe in the free, regulated, and tightly supervised markets as supported by EU legislation and EU and national regulatory and supervisory bodies. Accordingly, we would argue in favour of utilising and allowing the development of market-based solutions by tightly supervised private service providers. This means utilising existing solutions where possible, and freeing up resources to develop innovative solutions to novel problems. Separately, we are supportive of the standardisation of messaging formats, these are in our view essential to successful payment messaging & communication.

3. **How could the balance between public and private cooperation be achieved under a payment scheme approach?**

It is difficult to discuss the appropriate balance between public and private cooperation exclusively for the payment scheme approach. As set out above, from the perspective of achieving the ECB's/ES's strategic objectives, and subject to further analysis based upon credible financial forecasts, we tend to believe that the "Issuance" and "Open Access" options are preferable in this regard.

In general, we would recommend guarding against the limitations of a scheme approach, given the related complexities regarding the scheme's governance, that would need to respond to significant issues related to the management of conflicts of interests (given the ECB's payment oversight responsibilities) and to the need to determine the appropriate role of the DE given in particular its specific USP (including potentially its status as legal tender) in the wider competitive landscape of payments in the EU.

We would in summary urge the ES to carefully consider its preference for the scheme approach.

European Payments Council

# Distribution model options for a digital euro

## Preliminary EPC feedback to the ECB

25 July 2022

DRAFT -12 July 2022

Pres EPC067-22

# Caveats

- The EPC currently does not have a position on whether a digital euro should be launched or on any aspect of its potential design or modus operandi – the present EPC feedback is therefore subject to this general caveat
- As a result of the very limited time available for providing feedback to the ECB this EPC feedback is preliminary
- (High level) PowerPoint format adopted to match the ECB document's format and the tight timescales involved

# Background

- ECB's analysis seems to have identified 4 possible "distribution model options" for the digital euro, taking into account the main objectives pursued by the digital euro project and under the assumption that "the role of intermediaries in the distribution of the digital euro is undisputed in any of [these] models":
  - "Issuance"
  - "Open access"
  - "Payment scheme"
  - "End-to-end solution
- "Payment scheme" option appears to be the ECB's "prioritised approach"

# Feedback requested by the ECB on three questions

1. What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?
2. In terms of scope, which scheme elements (e.g. messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?
3. How could the balance between public and private cooperation be achieved under a payment scheme approach?

# EPC's general philosophy for SEPA schemes

- Multilateral contract under a single legal regime (i.e., Belgian law) between the scheme manager and all scheme participants ensuring reachability, scheme compliance and legal certainty across SEPA
- Separation of the "scheme layer" (managed by the scheme manager) from the "processing/infrastructure layer" (with the full responsibility for scheme compliance staying with scheme participants) and the "product layer", with both layers being left to the market without jeopardising pan-European interoperability
- Schemes to be regularly updated to meet evolving market needs and the evolution of technical standards, based on a transparent, open and well-defined change management process
- The scope of any scheme is determined by the minimum requirements for interoperability leaving otherwise maximum freedom to the market (thereby promoting competition, choice and innovation)
- Non-binding "guidance" may be provided on aspects related to the implementation of the schemes to help market players and facilitate further harmonisation
- Governance of schemes as soon as feasible in the hands of scheme participants, with the systematic, structured and multi-pronged involvement of all stakeholders (end-users, technical players, European public authorities)
- Use of and contribution to global standards whenever available and appropriate
- Risk management is an inherent part of the schemes

# Typical components of a SEPA scheme

- Clear definition of the scope and objective of the scheme
- Governance of the scheme
- Eligibility for scheme participation
- Scheme adherence process
- Funding of the scheme
- Business, technical and operational rules/requirements (processing flows, data sets)
- Rights and obligations of scheme participants
- Compliance (dispute resolution, sanctions)
- Contractual provisions (intellectual property, governing law, data protection, liability)
- Relevant regulatory context
- Scheme management processes (including maintenance and evolution)
- Risk management (business risks and information security risks)
- Default remuneration model (whenever appropriate - e.g. in the SPAA scheme)

# EPC's preliminary feedback to the three ECB questions – question #1

- Based on the limited information available, the ECB's "prioritised approach" could a priori seem broadly consistent with the EPC's current approach supporting its SEPA schemes
- However, a potential "digital euro payment scheme" would seem to go further than the EPC schemes by entering into the "infrastructure/processing" and "product" layers
- Main potential drawbacks (depending on the actual approach)
  - restricting freedom of market players
  - extra investments and extended time to market
  - limiting innovation

# EPC’s preliminary feedback to the three ECB questions – question #2

- Scope depends on and follows philosophy, objective and nature of the scheme
- The EPC has adopted a mix of “minimum interoperability” requirements, non-binding market “guidance” and maximum market freedom
- Choice to be made between “building” (a digital euro “ecosystem”) and “piggy-backing” (another form of euro in the existing “ecosystem”)
  - CB-to-”intermediary” domain (like for physical euro cash)
  - inter-”intermediary” domain
  - “intermediary”-to-end-user domain
  - end-user-to-end-user domain
- If scheme’s scope includes (e-)commerce payments
  - maximum reliance on existing infrastructure, standards and processes to minimise specific investment in the acceptance (and processing) environment and incentivise take-up and usage
  - balanced and viable business model to incentivise “intermediaries”’ participation’ and end-users’ take-up and usage

# EPC’s preliminary feedback to the three ECB questions – question #3

- Upfront and ongoing scheme participant and stakeholder involvement is key to ensure lasting market relevance, support and adoption
- Key success factor for pan-European payments is also public/private sector cooperation whilst reflecting each sector’s role, strengths and contribution
- Regarding a potential digital euro such a cooperation would be indispensable to
  - capitalise on existing or planned “building blocks” whenever appropriate
  - use market expertise
  - ensure “intermediaries”’ ongoing participation and support
  - define a realistic market roll-out plan

European Payment Institutions Federation aisbl

# 2nd ERPB Session on a Digital Euro: EPIF's position

2 September 2022

Dear Evelien,

EPIF welcomes the opportunity to comment on, what we understand, are the initial proposals of the ECB around the distribution of a possible digital euro.

We welcome the initiative by the ECB to improve the European payment system through a public-private partnership and we appreciate the ECB's efforts to date to coordinate the discussion among different industry participants. Nonetheless, it is in many ways difficult for EPIF to comment on the details of a distribution model if the design and anticipated use case of the digital euro remains undefined. Some use cases, such as a wholesale use of the digital euro or a retail offline payment solution – both identified by EPIF as possible gaps in the European payment landscape – would require their own unique scheme arrangements.

In general, EPIF supports the launch of a digital euro. With an advent of digital assets, the ECB and European Commission will need to consider the overall impact of the digital euro in the modernization and transformation of the future payment landscape. The ECB and European Commission will have to evaluate how best to safeguard the interests of the wider economy, the potential impact on fiscal and monetary policy, as well as the impact on consumers, businesses and other industry stakeholders. Against this backdrop, EPIF believes that the digital euro should complement and not replicate existing payment solutions. We applaud the work done by the ECB and the European Commission to advance instant payment solutions for account-based payments. Its implementation makes it even more important that the digital euro presents new, unique and additional solutions to merchants and customers.

The digital euro should not crowd out existing efficient private payment solutions. EPIF believes that doing so would go beyond the mandate of the ECB. The most favorable solution would therefore be a two-tier distribution model. It recognises the strategic role of the ECB in the issuance and convertibility of the digital euro, while preserving the role of financial intermediaries and payment services providers (PSPs) when it comes to the distribution of the digital euro. The ECB will need to work closely with PSPs to enable mass adoption of a new payment solution. Consumers are only likely to use the digital euro if it has additional useful functionalities and can rely on the existing acceptance infrastructure, including existing user devices. In this context, EPIF supports that the digital euro should be legal tender but that there should not be a legal requirement for mandatory acceptance, at least when it is initially launched, given the preponderance of cash usage in the EU. Such an environment will create the right incentives for the private sector to develop new use cases and drive innovation in line with market demand.

EPIF supports the ECB's suggestion for clear rules between market participants as regards the digital euro. The scope of any common rules should be clearly defined. EPIF in particular believes that there should be common rules for both bank and non-bank payment providers to build their own solutions, explore new use cases and bring additional value to customers. If needed, the ECB should also define commercial incentives for the private sector to invest in the new innovative ecosystem.

Any scheme should set out the minimum functional requirements. This should cover the minimum requirements for participants and basic common design components. Importantly, the design and governance of any scheme, as well as the role of a potential scheme manager, will need to fully recognize the strategic importance of the non-bank payment sector in the European payment ecosystem.

European Payment Institutions Federation aisbl

In addition, the European Commission and ECB should ensure direct access for qualifying non-bank payment providers to the intra-bank payment system TARGET 2 and TIPs.

EPIF looks forward to further engaging with the ECB on these important questions. Please allow us to reiterate once more that EPIF will be in a better position to make concrete recommendations once the design and unique contribution to the existing European payment landscape is better known.

Best regards,

Yours sincerely,

Nick Richtt

Nickolas Reinhardt, Head of the EPIF Secretariat

## ABOUT EPIF (EUROPEAN PAYMENT INSTITUTIONS FEDERATION)

**EPIF**, founded in 2011, represents the interests of the non-bank payment sector at the European level. We currently have over 190 authorised payment institutions and other non-bank payment providers as our members offering services in every part of Europe. **EPIF** thus represents roughly one third of all authorized Payment Institutions ("PI") in Europe. All of our members operate online. Our diverse membership includes a broad range of business models, including:

- Three-party Card Network Schemes
- E-Money Providers
- E-Payment Service Providers and Gateways
- Money Transfer Operators
- Acquirers
- Digital Wallets
- FX Payment Providers and Operators
- Payment Processing Services
- Card Issuers
- Independent Card Processors
- Third Party Providers
- Payment Collectors

**EPIF** seeks to represent the voice of the PI industry and the non-bank payment sector with EU institutions, policy-makers and stakeholders. We aim to play a constructive role in shaping and developing market conditions for payments in a modern and constantly evolving environment. It is our desire to promote a single EU payments market via the removal of excessive regulatory obstacles.

We wish to be seen as a provider for efficient payments in that single market and it is our aim to increase payment product diversification and innovation tailored to the needs of payment users (e.g. via mobile and internet).


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# 2nd ERPB technical session on a digital euro
# ESBG input on the distribution model

## 1. Introduction and preliminary remarks

ESBG welcomes the opportunity to provide feedback to the ECB on the Distribution model options for a digital euro the Digital euro project team is considering.

Since most of the issues regarding the digital euro are open and this specific written procedure has been initiated during holiday period with short notice, we had to limit our comments on a high, principal level, as it is very difficult at this stage to say what should be covered by an ECB digital euro framework/scheme.

The presentation on the topic as given by the ECB in the last technical session revolves notably around a possible scheme approach for the distribution of the digital euro. Before answering the questions related to a possible scheme, a common understanding of the concept scheme is required.

Although the entry scheme as such is not defined in the ECB Glossary, in reverse, the entry *set of formal, standardised and common rules* yields *a set of rules covering all material aspects governing an electronic payment instrument scheme which is uniform throughout the scheme, irrespective of whether the rules are based on a multilateral agreement, general terms and conditions or standardised bilateral contracts. These rules typically cover a common name and/or logo*.

In an earlier but still relevant publication of the ECB[1], a *payment scheme* is defined as *a set of interbank rules, practices and standards necessary for the functioning of payment services*. In the same publication, a *card scheme* is defined as *a technical and commercial arrangement set up to serve one or more brands of card which provides the organisational, legal and operational framework necessary for the functioning of the services marketed by those brands*.

Whilst in the definitions above the payment scheme seems limited to the interbank domain, the card scheme also hints at end-users via the words *brands* and *marketed by those brands*. A common understanding is that a scheme is about rules, practices and standards or a technical and commercial arrangement which provides the organisational, legal and operational framework necessary for the functioning of the services. It is indeed our understanding that via a scheme, an otherwise complex set of bilateral agreements can be replaced by a multilateral agreement – and that this can address various topics in scenarios where multiple counterparties could exist, such as in payments.

In such scenarios a digital euro framework or a scheme has certainly its merit, but it should be carefully positioned between the current regulatory framework on the one hand, and the scheme participants' freedom to compete, innovate and differentiate on the other hand. The framework should (at least) cover the distribution of responsibilities between the ECB and the intermediaries distributing the digital euro. Again, the relationship with

[1] European Central Bank (2010), 'The Payment System - Payments, securities and derivatives, and the role of the eurosystem', Editor Tom Kokkola, September 2010 which can be accessed here.

the intermediaries clients should not be covered by such a framework, and the framework should enable intermediaries' freedom to compete, innovate and differentiate (and not impede).

2. **Answers to Questions**

## ***A DIGITAL EURO PAYMENT SCHEME***

### 1. How would the scheme governance work in practice and who would be part of it?

In principle, there needs to be a digital Euro framework or a scheme defining how the digital euro should be issued and used by market participants. It needs to be further investigated on what should be included in this framework as it must not impede competition and innovation.

The decision-making process in the framework/scheme should be transparent and market participants that are expected to play a role in the distribution of a digital euro should be able to participate actively in the decision making process in such framework or scheme, whilst end-users should at minimum be consulted.

### 2. What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?

The framework or scheme should be carefully positioned between the current regulatory framework on the one hand, and the scheme participants' freedom to compete, innovate and differentiate on the other hand. This should be a key principle when designing the scheme, for example by defining different layers and allocating responsibilities between actors in each of them.

**3. In terms of scope, which scheme elements (e.g. messaging standards, requirements for end user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?**

To be able to answer the questions, we would need to have more information about the digital euro, for example on the following questions:

1. Is the DE indeed intended to be used for retail value transfer only? (i.e.P2P only or also for C2B and B2C (refund) value transfer).
2. Any end user limitations.
3. What regulation/legislation the digital euro is issued under.
4. The settlement process, i.e., each transactions or bunch.

If a digital euro scheme would be established, it should (at least) cover:

- Scheme participants and their tasks including rights and liabilities towards each other and end users.
- Business model for both the ECB as scheme owner and the distributors.
- Governance model,
- Auditing and activity monitoring on distributors but also on end users.
- Legal grounds.

Other important issues would be to establish principle stand-points on

- End user protection against fraud, misuse, theft and counterfeit.
- Distributor or ECB liability towards its end users in different categories and liability for claims between end users.
- Scheme owner undertaking to guarantee adherence to the rules by all participants and their distributors.

**4. How could the balance between public and private cooperation be achieved under a payment scheme approach?**

It needs to be further investigated on what should be included in the framework to enable competition and innovation.

ETPPA

Brussels, 25-Jul-2022

**ETPPA response to**
**ERPB technical session #2 on a Digital Euro (questions from 5-Jul-2022)**

Firstly, we would like to highlight once more our appreciation for the opportunity to participate in your design phase for the Digital Euro via the ERPB technical sessions and the possibility to provide written feedback. It is of essential importance for us to explain our preferences and to highlight any material issues for our sector of the industry.

Following the discussions at the first session, we expected some changes to the approach you suggested there. In that regard, we feel that your Summary of collection of inputs from ERPB members does not fully reflect our understanding of the oral and subsequent written feedback provided by us and the other participating organisations. It is our view that a majority appear to believe that a Digital Euro should reflect the main characteristics of our current Central Bank Money (CeBM), i.e. physical cash. This should imply full anonymity up to a certain (low) amount, and focus on current cash use cases, i.e. offline P2P and POS payments. Additional use cases should be prioritised by demand, i.e. current gaps like micro payments and machine-to-machine payments. Where digital money is already the norm (e.g. e-commerce) there is no apparent need to bring in another electronic euro variant, which could otherwise create end-user confusion.

We fully agree that a Digital Euro is needed to sustain the role of CeBM as the monetary anchor ensuring that a euro is a euro, and people trust their ability to exchange any type of euro (and any form factor) into another at any time, no matter whether it was privately or publicly issued. However, key to this is that the private and public euro does not look the same and that the Digital Euro will be similar to cash, i.e. a token in a wallet, rather than account-based at a PSP. Furthermore, it should be noted that the envisaged restrictions on the amount per citizen should not be hard limits, as it would otherwise undermine consumer trust and discourage adoption. A “security anchor” of a few thousand Digital Euro would appear useless, when my money in the bank is supposed to be secured up to €100k. We continue to believe that remuneration incentives are the better control mechanism for that.

Therefore, we would like to reiterate our view that for the reasons above, and for those described in our previous feedback, a Digital Euro should be designed along the following lines:

1) Focus on digital cash - anything else would be hard to explain

2) Anonymous up to legal limits and strong privacy thereafter

3) Bundle with EU Digital Wallets

4) Enforce low/no cost

5) Maximise usability and avoid any unnecessary friction

With that in mind, we would now like to address your suggestions and questions raised at the 2nd technical session on 5th of July:

Given previous assurance that private financial institutions and their Commercial Bank Money (CoBM) or electronic money (eM) shall not be crowded out, we were expecting a distribution model that would be more or less in line with the current scope and distribution of CeBM. This would mean allowing and enabling PSPs and their customers to convert their private euros into public euros at any time, e.g. by "downloading" electronic money from their account into a wallet and thereby turning the account-based CoBM/eM into tokens. The upcoming introduction of EU ID wallets is a golden opportunity for creating such a process, which would seem to be a clear win-win for the uptake of both new technologies: Digital Euro and EUIDWs.

People will much better understand the purpose of a Digital Euro in addition (and parallel) to the euros in their bank account, if it has the form of a token in their wallet, which can be exchanged peer-to-peer and offline at their will and without depending on any third party clearing and settling it in the background. Just like they can do today with their cash tokens, i.e. coins and notes. Obviously, this creates a number of technical requirements, which such wallets must fulfil, but we would not see any fundamental obstacles there.

Out of the four options you outlined in your presentation, this would probably relate closest to the first one (Issuance), although it might also be what you called "Open Access". Going beyond that into the scheme layer would seem to be a completely new approach for distributing CeBM, which is therefore not in line with our expectations and would appear to create a myriad of issues:

1) An account-based Digital Euro would look indistinguishable from CoBM, which is all account-based today. People are unlikely to see and understand the difference.

2) Exchanging account-based Digital Euros would appear to be in direct competition with the existing SEPA and domestic credit transfer schemes, in particular SCT Inst.

3) If the Digital Euro were to become legal tender (which normally we would support), this would oblige all merchants to offer an additional “D€” checkout option, which would then be in direct competition with all the other existing commercial schemes on offer.

Hence, our understanding of your recommended option “Payment scheme” would see this not just in direct competition with the EPC’s SEPA schemes, but also with all the existing commercial payment schemes on top of that. This would create a very real risk of crowding out the private sector financial industry.

+++ END +++

# EuroCommerce/Ecommerce Europe contribution to the ERPB technical session on the digital euro payment scheme distribution model

## Feedback request:

### What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?

| Drawback | Mitigation |
|---|---|
| Relatively low degree of innovation compared to *issuance* or *open access* approach.<br>Pace of innovation may be slower | Clearly carving out everything relating to product development, innovation, and value-added services from the scheme's responsibility.<br>Creation of a governance model that naturally incentivises participating members to innovate.<br>Pre-requisite: All innovation will have to remain within the framework of interoperability. |
| Low degree of efficiency due to complex governance structure and public/private co-operation. | Creations of such governance and public-private schemes is unprecedented. It will be crucial to put in place agile ways of working to allow scheme to adapt to fast moving payments environment – capturing all requirements. |
| Setting up new scheme, including publishing of technical rulebooks, branding guidelines, member management, etc. will be very time-consuming and costly | Will the funding of such scheme be fully backed by the public authorities? |
| Risk of crowing out private initiatives with competing objectives, i.e., creation of a pan-European payment scheme (based on commercial bank money) | Invite private initiatives to be part of such digital euro scheme. Provided that there are no anti-competition concerns, it might be beneficial to use economies of scale and combine multiple initiatives in a single one, also to avoid market fragmentation. |
| Without a fully-fledged end-to-end solution provided directly by scheme owner, there will still be fragmentation in the market | Strong focus on technical interoperability and common branding and communication might help to lower the degree of perceived fragmentation<br>Ensure common customer experiences at Point of Interaction |
| Mandatory participation only mandatory to supervised intermediaries. | Mandatory participation of all stakeholders to ensure large adoption. |
| Business model determines the basis of the remuneration model and would become less competitive in a four-party model | The business model should cover all costs components in a transparent way and business segments like consumer and commercial |

| | |
|---|---|
| | Tight rules to avoid circumvention.<br>Should there be also a three-party distribution model then the same rules should apply.<br>Any fee should be fixed amount per transaction and not ad-valorem, above a certain threshold. |

## In terms of scope, which scheme elements (e.g., messaging standards, requirements for end-user interface design, branding, etc) would you consider need to be covered under the scheme and which ones should be left to the market?

### *Scoping the scheme - What*

Before assessing which elements will be required for a successful *scheme* setup for distributing the digital euro a few key questions will need to be raised.

Most notably, the *What* question: What is the intention, the *raisons d'être,* of the future *scheme.* What aspects of a *scheme* approach does the EuroSystem consider necessary that cannot be catered for by opting for a less (or more) complex model?

Additionally, the concept of distribution remains somewhat uncertain. While the EuroSystem made it clear that supervised intermediaries will be involved in activities relating to the distribution of the digital euro, more information about what such distribution activities will concretely entail is needed for an in-depth analysis of relevant elements for a future *scheme*.

Depending on the statutes of the scheme, its scope, and purpose, a separation of scheme and processing will have to be undertaken. In such case, activities related to back-end processes may have to be carved out from the *scheme* and will therefore have to be dealt within an independent infrastructure and organisation, without the involvement of the scheme's members (supervised intermediaries)

### *Participating members and governance - Who*

Any information about the scheme's structure, including its working and governing bodies, as well as its management and composition has not yet been published. Facilitating multi-sectorial governance structures will certainly lead to lengthy and sometimes less efficient ways of working as opposed to uni-sectorial groups. However, only when allowing market participants and representatives of all sectors from the payment ecosystem to be represented in the governance structure, including within those bodies that will ultimately determine decisive strategic directions, will the scheme unfold its potential in terms of bringing value to end users and by reaching the set objectives.

### *Elements that will have to be covered by scheme – How*

#### Technical elements: Rulebook – standards and requirements

Based on the outlined objectives presented by the EuroSystem, a homogenous customer experience across the SEPA, not only in euro-zone, is considered one of the key arguments favouring a *scheme*-based approach. When participating *scheme* members will be mandated to develop proprietary customer facing solutions, which will allow seamless and convenient utilisation with a high degree of harmonised experience, it will be important that these solutions and processes will be based on a set of rules owned by the *scheme.* Such a rulebook will have to be continuously maintained by all scheme members and stakeholders of the payments ecosystem and should ideally be subject to regular consultations to allow for relevant market developments to be taken into consideration.

A fundamental part of such rulebook will be **mandatory functional requirements** that all participating supervised intermediaries will have to implement. Such requirements will have to specifically address the **prioritised use cases** (domains), i.e., POS, e&m-com, P2P. In addition, they will also have covered all relevant compulsory **payment services** (e.g.: payment services, refund services, offline payment services, and payment with unknown final amount). Whether requirements for specific value-added services should also be included in the rulebook will have to be carefully considered. On the one-hand side, prominent value-added services that may be used by a high proportion of end users may benefit from clearly defined rules on scheme level to allow for a consistent user experience across Europe. On the other hand, introducing such requirements on *scheme* level will hamper supervised intermediaries to innovate.

Consumers' trust will be a decisive factor in the success in any payment solution. Therefore, all stakeholders should also adhere to **mandatory security requirements** that the rulebook defines, and the highest degree of privacy will help gaining consumer's trust.

Equally important as above functional and security requirements on payment services and domains will be the inclusion of **technical standards**. These standards will also have to be incorporated by all participating members on mandatory basis to allow for all processes to operate, specifically, when different customer-facing solutions will be marketed. Standards should therefore focus on relevant interfaces for the distribution and initiation of digital euro transactions, i.e., NFC, QR codes, BLE, UWB. They should further define processes relating to the required messages related to digital euro transactions, for example Request to Pay and authorisation.

## Commercial elements

Benchmarking and comparing against already existing payment schemes will be a necessary activity, especially when defining the scope and statutes of the future digital euro *scheme.* Two key criteria come to mind when analysing such schemes:

1. technical vs commercial
2. Member engagement: 3-corner vs. 4-corner model

### 1. Technical vs commercial

Organisations governing a (payment) scheme will come with varying degrees of business integrity: some schemes will within their organisation purely elaborate on technical rules and standards that will allow members of the scheme to operate in a moderately interoperable manner. Adherence to the scheme may or may not be mandatory for participants of a specific sector, and the conditions under which they offer services based on the underlying payment instrument to their end user will greatly vary from member to member.

On the other spectrum, schemes go much further and define business rules, dictate end-to-end remuneration models and levels of compensation for participating members as well as mandatory compliance to all rules.

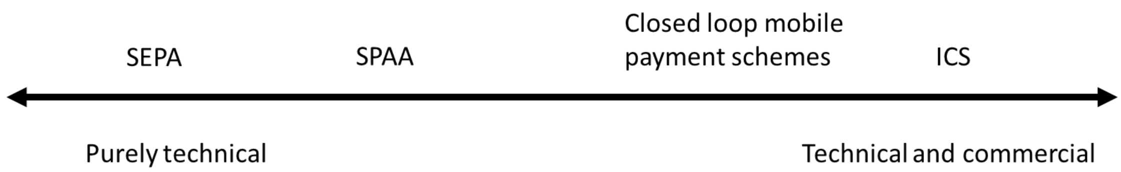


*Figure 1: technical vs. commercial schemes*

When analysing whether a *scheme*-based approach will be an appropriate option for the EuroSystem to distribute digital euro, it will be important to determine to what extent such scheme will put forward commercial and business rules that participating members will have to adhere to.

The further an organisation positions itself on the right-hand side, the more harmonised are the business rules and remuneration models for end users. This may also provide additional clarity for payment service users in case that such rules are implemented in a transparent and simple way. **Allowing merchants and consumers to understand the specificities of the associated pricing models will be considered a prerequisite for a sustainable and efficient setup.**

## 2. Member engagement: 3-corner vs. 4-corner model

The operating model of a *scheme* can be differentiated by the number of participating actors. Distinctions can commonly be made between a 3-corner and a 4-corner model.

In a 3-corner model the operating scheme will typically directly contract both, merchants and consumers. The payment instrument is therefore directly distributed from the organisation governing the scheme to the end user. Intermediaries or scheme members do not play an active role in such setup as both commercial and technical domains are completely covered within the scheme.

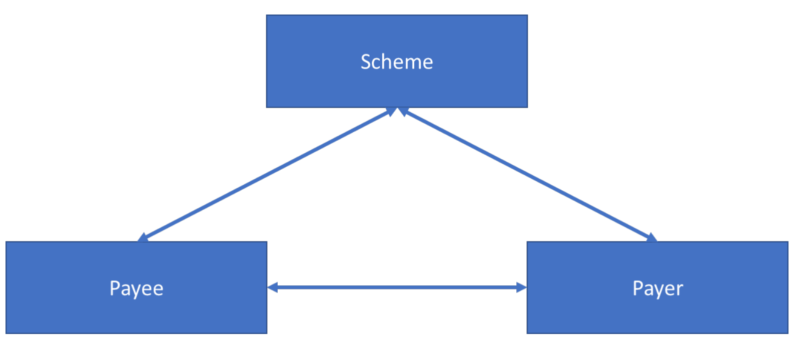


*Figure 2: 3-corner model*

4-corner schemes rely on the active participation of so-called members. The scheme operator does not contract merchants or consumers directly, but it is the role of the scheme members (acquirer and issuer) to market the payment solution/instrument to the end-user.

The scheme's role in such scenario consists not only of providing the binding technical and commercial rules, but also of maintaining the network, allowing all participating members to communicate with the objective of servicing the end-user.

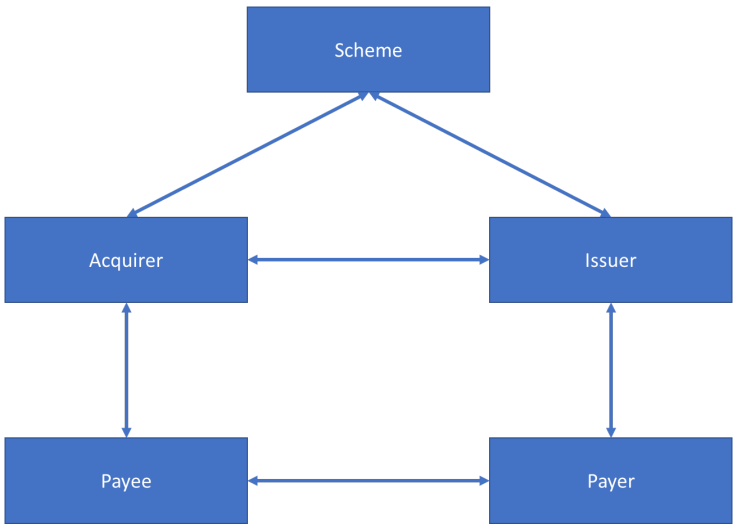


*Figure 3: 4-corner model*

In earlier communication provided by the EuroSystem, it was made clear that supervised intermediaries will be assigned to distribute the digital euro. End-users of the digital euro will therefore not be in a direct contractual relationship with the owner of the *scheme*, but more likely with a supervised intermediary. Even in instances where clearing and settlement processes can be combined, or where the transfer of digital euro will be based on a token being moved from a consumer to a merchant, a 4-corner model will be necessary for the same reason: end-users will very likely not contract directly with the scheme.

A possible exception could be a P2P scenario for which consumers using the digital euro use a mobile wallet owned and distributed *directly* by the scheme: Here a 3-party model could indeed be a feasible solution.

## Operational elements

Operational considerations will have to be considered by the EuroSystem that will ultimately facilitate the smooth functioning of the *scheme* and will guarantee that all participating members distribute the digital euro based on the above discussed elements. The following elements will have to be addressed when setting up a *scheme* based on the objectives as outlined by the EuroSystem

1. Certification and compliance
2. Transactional services – fraud detection, AML and CFT
3. Marketing and communication

### 1. Certification and compliance

Regular assessments should be carried out with the objective to verify whether all participating members and relevant stakeholders operate in accordance with the specified requirements and standards as defined by the *scheme.* This is to guarantee that standardised processes are respected. With an elaborate certification process, the *scheme* will mitigate fraud risk and avoid unexpected errors, while at the same time strengthening trust within the payment ecosystem in the *scheme's* operating systems.

Whether such an entity who will be in charge of designing the certification criteria and carrying out the assessment will be part of the *scheme* itself or an outsourced entity may depend on the precise organisational design preferences.

### 2. Transactional services – fraud

The operators of the *scheme* will see large data volumes passing through their network. An entity within the *scheme* should be put in place that digests such data for analytical purposes but also to detect abnormalities, including fraudulent behaviour by users of the digital euro or even by supervised intermediaries directly.

### 3. Marketing and communication

To strengthen the homogeneity of consumer-facing digital euro solutions, a common marketing and communication approach may have to be introduced on *scheme* level. The creation of a unique and identifiable trademark as well as its handling and communication by the *scheme's* members should be part of such activities. For that reason, both voluntary communication guidelines and sets of communication material, as well as and mandatory rules regarding usage of the *scheme's* trademark should be provided by the *scheme* and put forward to its members.

Creating end user awareness, branding and communication will be crucial for the success of a digital euro. Early involvement of PSU representatives in such campaigns is needed to be able to address end users pertinently.

### Elements that should not be covered by the scheme

Supervised intermediaries and merchants should be given enough flexibility to come up with innovative solutions that are based on the foundations of the *scheme's* core requirements. The way these supervised intermediaries and merchants interact directly with their customers, how they provide auxiliary services like reporting and data management tools, and the provisioning of value-added services should not be in scope of the *scheme's* mandate.

However, as mentioned above, regular assessments of best practices should be considered by the *scheme* to promote promising innovations and value-added services to gain more traction across Europe and digital euro end-users. The uptake of such innovative services may then be added to the set of mandatory (payment) services that will have to be supported by all participating members – this is to guarantee that prominent and widely used services that are outside the *scheme's* portfolio will in the future continue to have a homogeneous end-user experience. An appropriate incentive scheme should therefore be considered to encourage all supervised intermediaries to innovate.

## How could the balance between public and private cooperation be achieved under a payment scheme approach?

A payment scheme based on a public and private cooperation is a somewhat unprecedented setup. Therefore, any suggestions are based rather on theory than best practices.

Extra attention should be paid on aspects relating to the governance and ownership structure to allow for a public-private approach to be successful. To be considered as a truly private-public *scheme*, both public and private investors should be owning the holding company governing the *scheme.* As substantial investments may have to be undertaken by supervised intermediaries to distribute digital euro and merchant to accept digital euro, it might be favourable to allow a portion of the shares to be allocated to these intermediaries and merchants (or their representative organisations).

Directly linked to the aspect of ownership is the governance setup. A strong testament to the public-private partnership could be manifested by putting in place co-chairs to all important governance bodies, one representing the public and the other representing the private sector. This could be the case for the governing or management board (or board of directors), the general assembly (if eligible), and other high-level bodies or working groups within the *scheme.* Key shareholders will typically be able to participate in fundamental voting procedures. Just as important will be that representatives of non-members and non-shareholders should also be invited to those sessions to cast their votes. This is to guarantee that key strategic decisions are not taken in isolation but with the active participation and involvement of the wider digital euro payment ecosystem – including merchant and consumer representatives, regardless of whether they will be an official shareholder or not.

Cross-sectoral collaboration will be essential also in the groundwork of the *scheme*. The current EPC and/or ECSG working framework, creating multi-stakeholder working groups should serve as inspiration to allow all relevant stakeholders to actively participate in the drafting and maintenance of the *scheme's* rulebook.