

# Comments

## Targeted consultation on a digital euro

*Lobby Register No R001459*

*EU Transparency Register No 52646912360-95*

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Berlin, 14 June 2022

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## Comments on the Targeted consultation on a digital euro

### Preliminary Remarks

We welcome the opportunity to provide our views and thoughts on a broad range of questions regarding the digital euro, following the ECB's public consultation in 2020/2021. The comments in this document are complementary to our extensive answer to the European Commission questionnaire submitted online and are, for the sake of clarity, structured in the same way as the questionnaire:

1. Users' needs and expectations for a digital euro
2. The digital euro's role for the EU's retail payments and the digital economy
3. Making the digital euro available for retail use while continuing to safeguard the legal tender status of euro cash
4. The digital euro's impact on the financial sector and the financial stability
5. Application of anti-money laundering and counter terrorist financing (AML-CFT) rules
6. The privacy and data protection aspects
7. International payments with a digital euro

### **1. Users' needs and expectations of a digital euro and 2. The digital euro's role for the EU's payment systems and the digital economy**

EU citizens already have access to efficient and secure digital means of payment. However, the digital euro could complement existing options for consumers by adding to the strengths of cash and digital processes. To achieve this, the digital euro would have to have the following features:

- can be used by consumers universally (incl. permanent offline capability with appropriate limits).
- the digital euro should strengthen the data sovereignty of consumers (high level of privacy by design, consumers should have the choice to use transaction data).
- can benefit from the strengths, innovativeness, and competitiveness of the market.
- allows innovative models and application options for the private sector (e.g., delivery versus payment, i.e., immediate settlement).

While it must be possible to develop sustainable business models that enable customer-friendly and secure offers for the digital euro, synergies with existing offers should also be sought to prevent cannibalisation. In addition, supervised intermediaries that provide consumers with access to the digital euro must be given the option of receiving remuneration for commercial transactions within an acceptable range in order to ensure the costs and benefits are fairly distributed.

In fact, the ECB's digital euro does not go far enough for consumers. It needs a digital euro ecosystem, consisting of retail and wholesale CBDC, as well as private sector solutions. For retail CBDC, the ECB should limit itself to the retail use case for consumers. The ECB should also investigate whether or not an optional link with the EUID would make sense.

### **3. Making the digital euro available for retail use while continuing to safeguard the legal tender status of euro cash**

The assessment of a legal tender status for the digital euro can only be done once it is known what form this legal tender status would take. In any case, the freedom of contract that exists today for citizens and businesses should remain unaffected. Nevertheless, the required investment costs for retailers and banks

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will be high and cannot be met without government funding. Intermediaries that provide consumers with access to the digital euro must be given the option of receiving remuneration for commercial transactions within the acceptable range in order to ensure the costs and benefits are fairly distributed. Furthermore, any remuneration from the digital euro should cover all parties' costs and, at the same time, any profits should go into further developing offerings.

### **4. The digital euro's impact on the financial sector and financial stability**

In order to prevent structural disintermediation and a digital bank run in times of crisis, the digital euro ought not be used as a form of investment on a large scale. Consequently, the introduction of the digital euro must include a fixed upper limit on digital euro holdings. A tiering system will not protect against the outflow of funds if there is a crisis. However, it might be possible to use the digital euro for individual transactions that exceed the upper limit if an exchange against commercial bank money is automatically guaranteed before and after the transaction. Nevertheless, without a limit, there would be an outflow of customer deposits which, if severe enough, might be comparable to a bank run. Apart from this, refinancing using customer deposits would be seriously restricted.

The result would be a decrease in the credit supply and/or an increase in the cost of credit since commercial banks would have to use other, more expensive refinancing options. Alternatively, the central banks would have to fundamentally adjust and expand the collateral framework, meaning the need for additional collateral or lower haircuts. If the ECB were to provide greater central bank liquidity, there would be a risk that decisions about distribution might be more politically influenced.

The revenue from payment transactions would ensure the profitability and innovative strength of banks and payment service providers. While integrating the digital euro into underlying business models would not only be an attractive business policy, it would also be a vital requirement for providing consumers with secure and convenient access to the digital euro.

### **5. Application of anti-money laundering and countering terrorism financing (AML/CFT) rules**

Irrespective of the design of the digital euro, all the requirements of AML/CFT rules must be adhered to. However, the precise technical design of the digital euro will also have an influence on costs. Equally, stricter AML/CFT requirements will also lead to higher costs.

Offline payment options constitute a core component of the digital euro. Any increased risk associated with money laundering can be countered by setting a fixed upper limit on transactions. This upper limit would not refer to the number of offline transactions, but to their total amount. There would be less of a risk from money laundering with the digital euro than there is from cash because established checks and mechanisms in current electronic payments could also be used for the digital euro. However, high quality AML/CFT will only be possible with a holistic view of the customer which takes into account all forms of money.

### **6. Privacy and data protection aspects**

The lawful processing of data by private intermediaries is in particular suitable for a number of activities, e.g., AML or to process payments. In contrast, central banks should have almost no access to users' personal data. One important reason for this is that the digital euro is supposed to be an anonymous/pseudonymous means of payment and the public places considerable trust in its integrity.

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Private intermediaries can already perform critical tasks due to their many years of comprehensive experience in the fields of operational resilience, security, AML/CFT rules and fraud detection. As a result, it is not necessary to involve the central banks here. It would be unnecessary for the ECB as a public institution to collect and use personal data for the given model, which involves regulated intermediaries, and should therefore be rejected on data protection and regulatory grounds.

Users of the digital euro should be free to decide for themselves whether their data may be used for commercial purposes or not (opt-in). In this context, AI will become increasingly important for optimised data processing.

### **7. International payments with a digital euro**

The digital euro is primarily intended to serve consumers in the Euroarea. It should, therefore, be available primarily to citizens of member countries in the Euroarea, but also to consumers from third countries who are resident in a member country or who are temporarily staying in the Euroarea, for example, as tourists.

Use of the digital euro by consumers internationally should be prohibited or at least strictly limited given the potential impact on monetary policy and the financial stability of the Euroarea as well as of third countries. Cooperation between central banks is to be welcomed, but this should not become the task of a retail CBDC. If consumers from third countries are to be permitted to use the digital euro then it may be necessary to link any transactions to a payment account in the Euroarea.