

European Central Bank
Attn. Mr Fabio Panetta
Member of the Executive Board
Chairperson of the Euro Retail Payments Board

via email

24 March 2023

Your ref: **Compensation model and roll-out
approach for the digital euro**
Presentation to the ERPB 22 February 2023

Classification: Closed User Group

Re. EBA CLEARING comments on Digital Euro design

Dear Mr Panetta,

Following our exchanges over the past few years on the topic of the enhancement of the payments landscape in Europe, we are writing to provide some important comments in relation to the most recent presentation of the Digital Euro Project at the Euro Retail Payments Board (ERPB) of 22 February 2023. Our comments particularly touch upon the compensation model and rollout approach for a digital euro.

First, in relation to the “Compensation model for the digital euro”¹ we note that the Eurosystem foresees that “PSPs would have their own costs related to the distribution of the digital euro services they provide, but they would not be charged Eurosystem costs such as those related to scheme management and settlement processing”.

In other words, the Eurosystem will: (i) develop and manage the rulebook for the digital euro; and (ii) provide settlement services (presumably via TIPS²), all at no cost to PSPs.

This model excludes any role for private sector payment system operators in the provision of a digital euro because private sector operators, unlike the Eurosystem – which can provide fully subsidised services using public funds – must recover all costs, including investment costs, from PSPs.

If TIPS is to be used as the settlement mechanism of the new digital euro, then, according to the compensation model, TIPS would not charge any fees for funding and

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https://www.ecb.europa.eu/paym/digital_euro/investigation/governance/shared/files/ecb_degov230222_item4compensationmodel.en.pdf

² Regarding the link between instant payments and a digital euro, see, for example, the Draft Report of the Committee on Economic and Monetary Affairs of the European Parliament, citing the instant payments regulation as a “cornerstone of a broader package of legislation” including the digital euro:

https://www.europarl.europa.eu/doceo/document/ECON-PR-742661_EN.pdf (page 17).

defunding or TIPS transaction costs, as such costs would be absorbed by the Eurosystem,

Private sector operators, such as EBA CLEARING, which must also use TIPS for funding and defunding, are significantly disadvantaged by the fees that are charged for TIPS transactions and funding and defunding instructions, in particular the fee charged for each underlying transaction processed by the instant payment system.

As further described below, the envisaged model could also create a single point of failure, which is at odds with the general Eurosystem objectives of resilience, interoperability, and choice.

We fully understand that the Eurosystem's vision is that a digital euro would emulate cash as much as possible, however, we consider that it is also important that a – new – digital euro emulates today's existing forms of digital euro.

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

Private-sector payment system operators play an important role today in transposing commercial bank money to central bank money, guaranteeing fungibility. Therefore, we would encourage the Eurosystem to ensure this role could be leveraged for a new form of digital central bank money.

An example of this public/private collaboration is evidenced by the success of the Single Euro Payments Area (SEPA). The public sector contributed through the SEPA Regulation, creating harmonised conditions for credit transfers and direct debits across the SEPA, and ECB participation in the ERPB. The European Payments Council, an international association of PSPs and PSP associations, designed the SEPA schemes for credit transfers and direct debits, and subsequently for instant credit transfers. Based on these schemes, EBA CLEARING was able to launch the pan-European STEP2-T payment system, which has become a cornerstone of the SEPA processing infrastructure. Similarly, EBA CLEARING launched RT1, the first and largest real-time gross settlement payment system for the execution of SEPA Instant Credit Transfers (SCT Inst) at a pan-European level. Both STEP2-T and RT1 are overseen by the ECB.

Second, regarding the "Rollout approach for the digital euro"³, we refer to the following question: *"Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?"*

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https://www.ecb.europa.eu/paym/digital_euro/investigation/governance/shared/files/ecb.degov230222_item5rollout_approach.en.pdf?374f32cc0f53c21a7ec40209254ddf61

The Eurosystem has proposed a staggered rollout approach in the presentation, with a view to ensuring a smooth end-user payment experience and reducing the implementation complexities. However, EBA CLEARING considers that the tools to support the use cases foreseen by the Eurosystem already exist in the market, supported by commercial bank digital money. The existing knowledge and tools in the market should be fully leveraged in the implementation of a digital euro. Therefore, the best approach would be to build upon these available tools and create new opportunities.

By leveraging existing European-owned and European-governed components, including instant payments, open-banking APIs and the SEPA Request to Pay (SRTP) Scheme, the European payments industry can create innovative payment products, while realising the full potential of existing investments and providing immediate and broad reach, all based on a set of existing and proven processes. We believe such an approach would be effective and efficient in driving innovation in payments at a pan-European level, as well as supporting a quick and broad uptake.

SRTP, in particular, leverages SCT Inst infrastructure investments of the industry and allows service providers of payers and payees to independently develop their own value propositions, while interoperating on a pan-European scale. Existing investments in strong customer authentication, apps, devices etc. can be easily integrated, which will ensure a fast uptake.

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

A further advantage to leveraging existing schemes (including SRTP) and processing infrastructures, including two pan-European infrastructures, is to create resilience in case of temporary unavailability of parts of the ecosystem. The co-existence of complementary infrastructures will avoid creating single points of failure.

We look forward to contributing to this important dialogue and are available to you and the ERPB for further clarifications.

Kind regards,

